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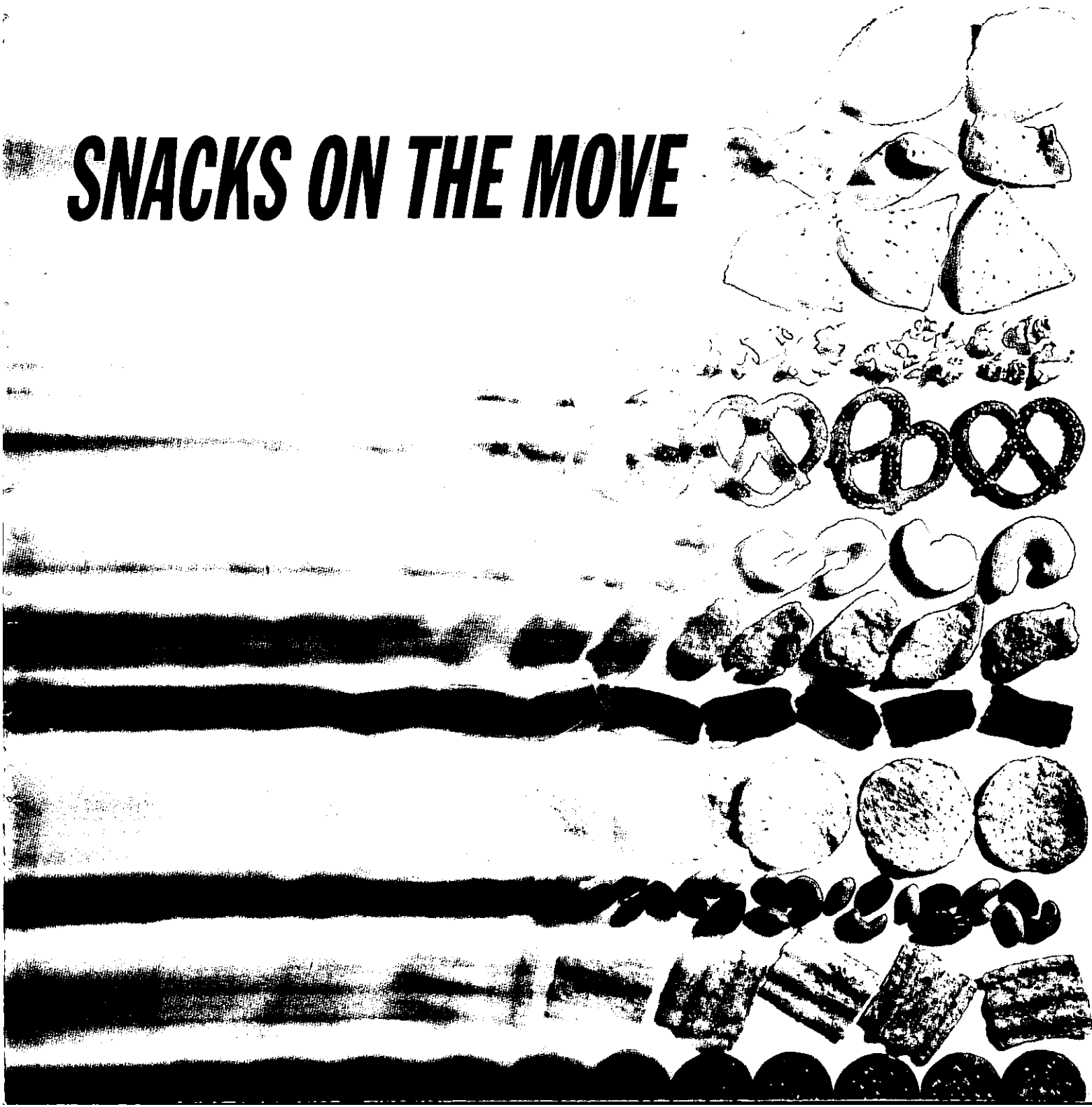
Snack Food Association, Alexandria,
VA

1993

1992 SNACK FOOD ASSOCIATION STATE-OF-THE-INDUSTRY REPORT

Sponsored by:
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SNACKS ON THE MOVE



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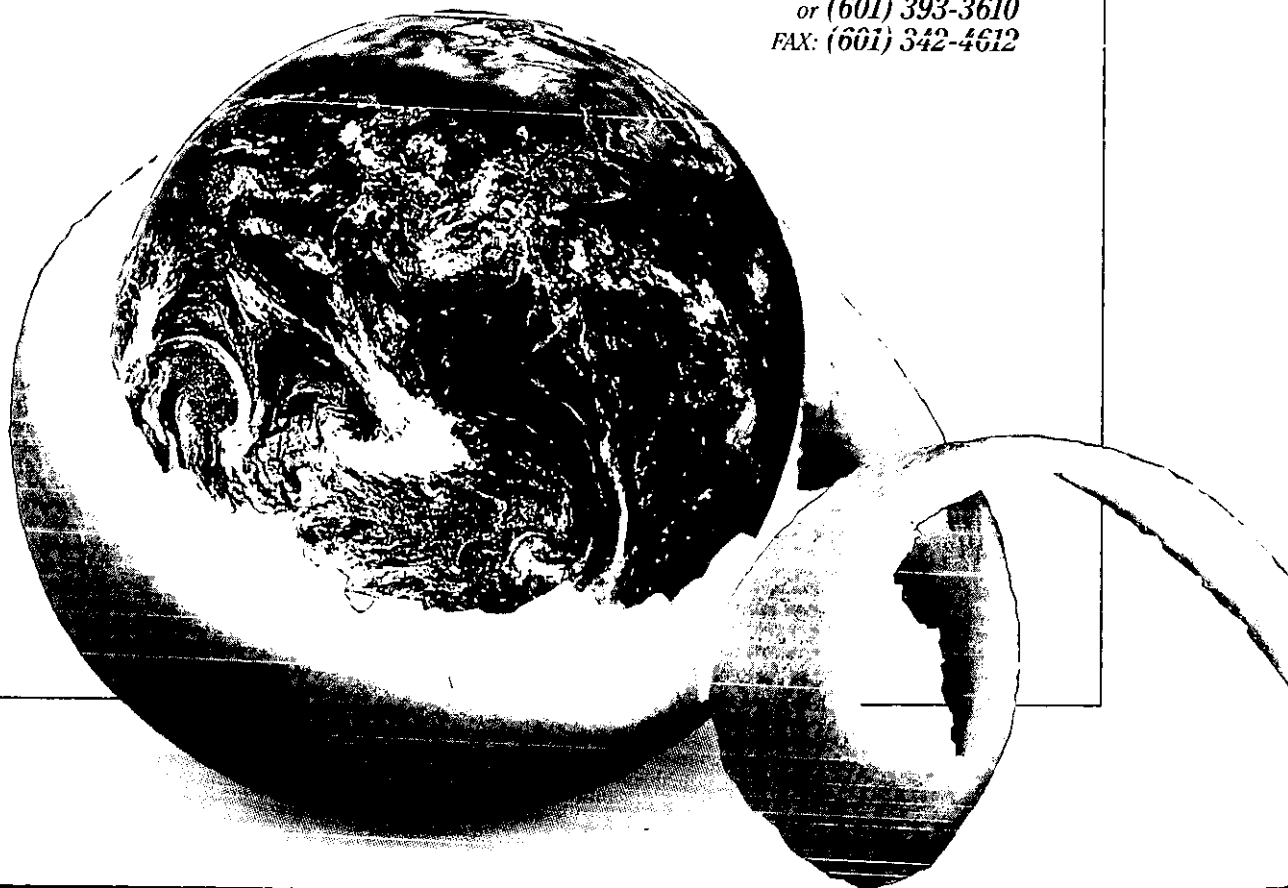
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This report was written by Al Rickard, vice president for communications at the Snack Food Association, Jane Wuerthner, managing editor of *Snack World*, and Bill Levy, contributing editor to *Snack World*. Photography by Lee Salsbery. Design and production by Carole Thieme Design Studio, Alexandria, Virginia.

The 1992 *SFA State-of-the-Industry Report* is published by the Snack Food Association, 1711 King Street, Alexandria, VA 22314. This summary report is available to SFA members for \$10; to nonmembers for \$40. Copies of the complete report, including supermarket scanner data and results of the 1992 SFA member survey, are available for \$25 to SFA members and \$150 to nonmembers. To order either report, send a check for the price of the report, plus \$2.50 for shipping and handling, to SFA at the above address.

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INTRODUCTION

The 1992 *SFA State-of-the-Industry Report* represents a substantial leap forward in SFA's ability to accurately measure sales in the snack industry. Through the years, this report has always been the industry's best source of information about snack sales, but this year additional information has raised both the quality and quantity of data to a new level.

Nielsen Marketing Research, based in Northbrook, Illinois, has provided supermarket scanner data on sales of a wider variety of snack and snack-related products. In addition, data from a consumer household panel has provided more detailed information about distribution outlets for each type of snack, plus per-pound price figures for each snack for several distribution outlets.

This information, combined with results of the annual SFA member survey of U.S.-based snack manufacturers and personal interviews with key executives in all segments of the industry, has allowed us to add new charts on distribution and price to the sections on each major snack

segment. This year's survey was conducted by Association Research, Inc., Rockville, Maryland.

Because this new data is much more comprehensive and detailed than ever before, we have made some adjustments in data reported for previous years so that 1991 data in this report relates to figures from previous years. For example, figures for total snack industry dollar sales figures and pound volume for 1987-1990 have been revised slightly, but percent change figures for those years remain the same. Similar revisions have been made within specific snack segments, such as potato chips. Whenever possible, pound volume figures for previous years have been retained, while new information about price has resulted in adjustments to dollar sales figures.

All dollar sales figures in this report represent retail sales unless otherwise noted.

Questions and comments about this report should be directed to SFA Vice President for Communications Al Rickard at (703) 836-4500.



THE SPONSORS: Dick Botsch (left), vice president of business development for Printpack Inc.; Phil Rogers (center), vice president of sales and marketing for Flavorite Laboratories, Inc.; and Bill Wagamon, industry director, snacks, for Hercules Incorporated, represent the three SFA Associate Member company sponsors of this report. An interview with the chief executives of these companies is featured on page SW-10.

SNACKS ON THE MOVE

1991 Dollar Sales: \$13.43 Billion (+5.6%)
1991 Pound Volume: 4.92 Billion (+6.5%)

A year rarely passes without a plethora of activity in the savory snack industry. 1991 was no exception. While other product categories suffered from the recession, the snack category was on the move, posting a 6.5 percent gain in pound volume and offering consumers a variety of new products.

1991 was probably the most competitive year in the history of the snack industry, reflected in low prices and heavy promotions as snack manufacturers continued to jockey for precious market share.

Perhaps J. Wesley Felton, president of Granny Goose Foods in Oakland, California, sums it up best: "Whatever you promote moves."

It seems price slashing took its toll on the snack food industry, dropping overall profits from 10.5 percent before taxes to 8 percent, according to SFA's annual survey of snack manufacturers. Profits for full-line snack companies (companies selling five of six major snack products) averaged 6.8 percent.

Felton describes the competition in the West as relentless. "If anything, it's gotten worse," he remarks. "Two years ago, I thought it might slack off. A year ago, I had the same hope. Now I don't see any end in sight."

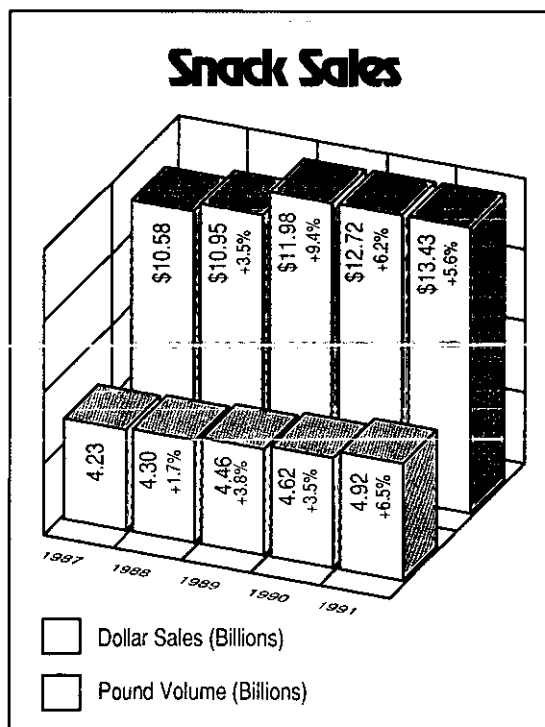
Extensive price-cutting in the industry was reflected in the relationship between retail dollar sales growth and pound volume increases. Dollar sales rose 5.6 percent, but was outpaced by pound volume growth of 6.5 percent. Still, the industry more than held its own during the lingering recession, posting record sales of \$13.43 billion on volume of 4.92 billion pounds.

Ironically, dollar sales of snacks suffered in part because of increased business generated by warehouse club stores, where growth opportunities can be found. These outlets, which buy in pallet-sized quantities and concentrate on large sizes not generally found in traditional stores, produced volume numbers that si-

phoned sales from traditional supermarkets and grocery stores by offering lower prices.

For example, the average price per pound of potato chips in supermarkets was \$2.61, compared to \$2.14 in club stores. For tortilla chips, supermarkets averaged \$2.23 per pound, compared with \$1.75 in clubs. The difference for pretzels was almost 70 cents, while for snack nuts it was 76 cents per pound. Needless to say, the lure for consumers is price.

According to *Supermarket Business* magazine, club stores are undercutting supermarkets by at least 25 percent on a variety of items. *Supermar-*



ket Business calculated prices on a unit-price basis for 53 items at Price Club and compared prices for the same items at Pathmark and Super Stop & Shop supermarkets. The Price Club items were 31 percent cheaper. Club stores are able to operate on very low margins—as low as 9 to 10 percent, reports *Supermarket Business*—because there is no inventory expense. "If the goods aren't on consignment, they move fast enough that there is no credit charge," explains a

food industry executive questioned by the magazine.

One thing is clear: Club stores and mass merchandisers are growing. In fact, according to the *Membership Warehouse Clubs Industry Overview - 1992*, a report on the club store industry, sales in these outlets will hit \$34.7 billion in 1992, up from \$13.9 billion in 1988. According to James M. Degen & Company, Inc., a Santa Barbara, California, marketing consulting firm that has been studying the membership club warehouse concept since 1980, club stores are forecasted to grow to sales of \$78 billion in 900 club units by 1996.

In the snack industry, warehouse clubs account for 4.1 percent of pound volume and 3.0 percent of dollar sales, while mass merchandisers sell 8.2 percent of pound volume and account for 7.1 percent of volume dollars. (The effect of these stores on the snack food industry is also explored in the February 1992 issue of *Snack World* in the article, "Reaching 'Critical Mass' in the Snack Food Industry.")

It's no wonder, therefore, that the growing presence of mass merchandise and warehouse club stores is gaining attention in the food industry. In PepsiCo, Inc.'s annual report, mass merchandisers and warehouse club stores were cited as the fastest-growing channels for Frito-Lay products, which have strong positions in K mart and Wal-Mart. "We won't be satisfied until there's a Frito-Lay snack within easy reach of every man, woman, and child in the country," reads PepsiCo's annual report in outlining Frito-Lay's distribution goals.

The Columbus, Ohio-based Borden Snacks and International Consumer Products Division also announced it has plans to expand its position through alternative outlets to include club stores, convenience stores, and foodservice outlets.

Whereas in the past, most club store shoppers bought for small businesses, *Supermarket Business* reports that today's club store consumers are buying for themselves, bringing new competition to supermarkets. Club stores have achieved a 3.1 percent penetration of the U.S. grocery industry, reports Degen & Company. Not surprisingly, supermarket operators are concerned about this new

competition. Supermarket executives are disgruntled that they don't have access to the same deals and special packaging afforded discount retailers.

Some supermarket chains are retaliating by establishing "maxi pack" sections where large-sized bags sold in warehouse club stores are displayed for equivalent pricing.

"We tell supermarkets that if they buy product in pallet quantities, we'll give them the same price," says one snack food executive.

The best defense for supermarkets, however, is in emphasizing the traditional supermarket strengths, including consistent stock. Club stores may never have the same mix of brands two weeks in a row. Furthermore, brand selection among club stores is typically very limited. Interestingly, Wal-Mart Stores, the nation's largest retailer, is challenging marketers of well-known brands with popcorn, tortilla chips, and other products under its own Sam's American Choice label for lower prices.

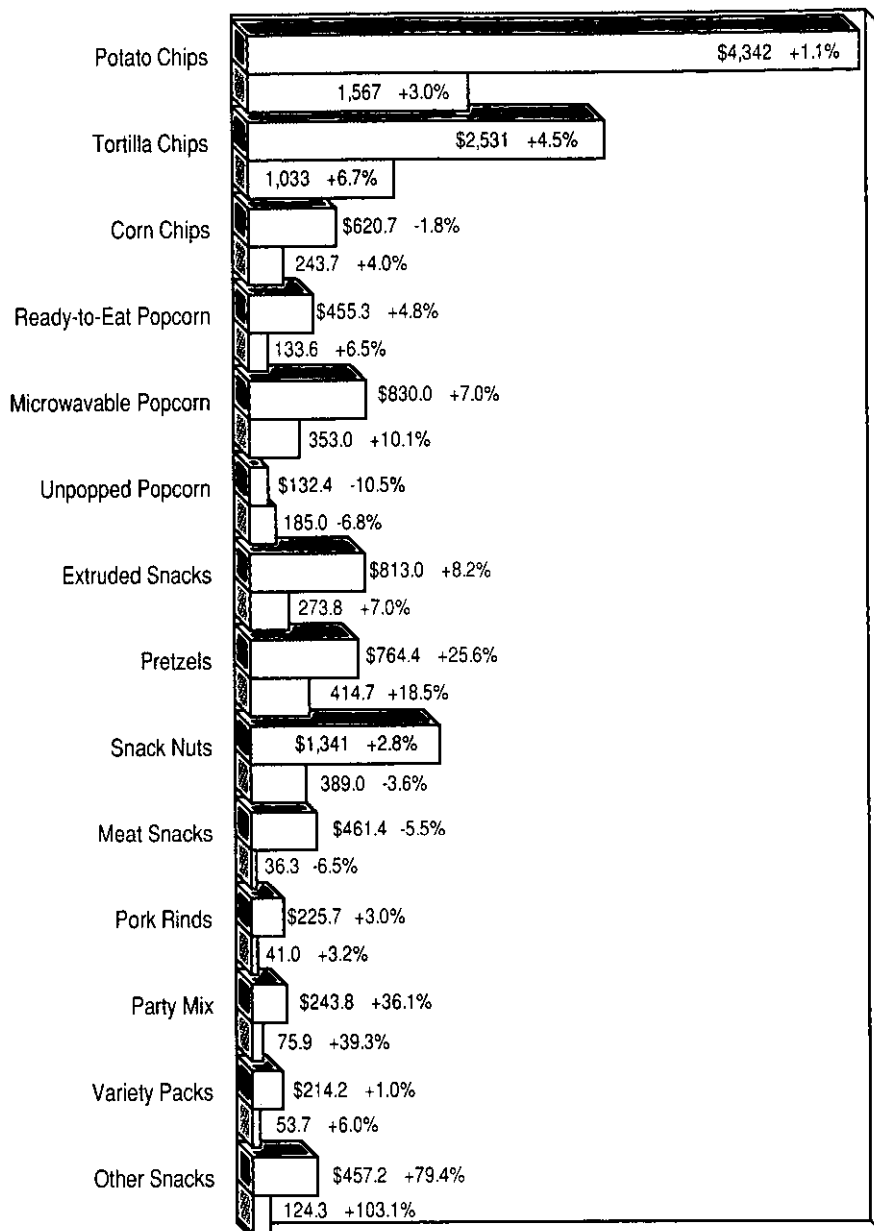
Food marketers, on the other hand, welcome club stores, especially since they're loosening the grip supermarkets have had on the food industry. *Food Marketing* magazine points out that club stores let food manufacturers distribute their products without incurring expensive slotting fees for bringing new products to the shelves. Therefore, in the face of fierce and unabated competition, and with the growing realization that the snack food industry is not immune to the recession, snack companies are scrambling to take advantage of the booming mass merchandiser and club store opportunity.

The eroding sales of snacks in supermarkets was evident in sales in major snack segments such as potato chips, tortilla chips, corn chips, and microwavable and ready-to-eat popcorn, as evidenced by the growth comparison chart on page SW-8. Although overall potato chip pound volume was up 3 percent, supermarket pound volume climbed only slightly more than 1 percent. Tortilla chip wars produced a 6.7 percent overall increase in pound volume, but only a 4.2 percent hike in supermarkets. Corn chips were up 4 percent in overall pound volume, but dropped almost 2 percent in supermarkets. Microwavable popcorn posted a 10.1 percent increase in pound volume, but only a 5.5 percent

1991 Snack Sales

Percentages indicate change from 1990

□ Retail Dollar Sales (Millions) □ Pound Volume (Millions)



Total 1991 Retail Dollar Sales: \$13.43 Billion +5.6%

Total 1991 Pound Volume : 4.92 Billion Pounds +6.5%

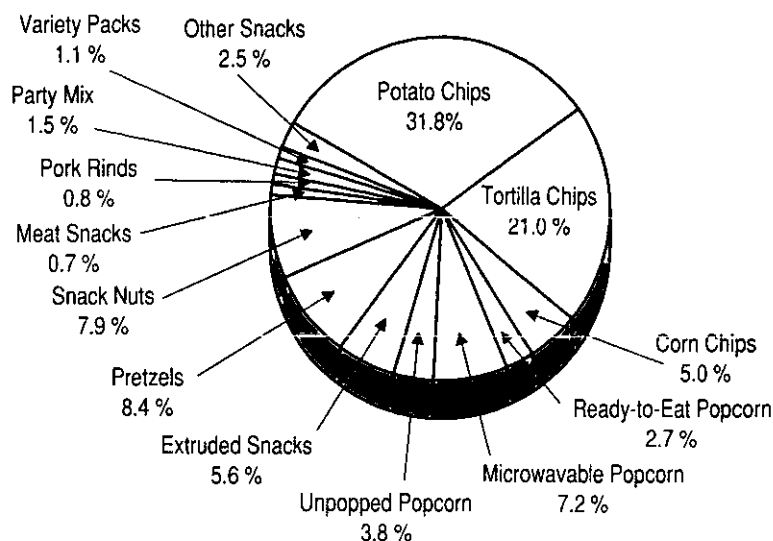
cent increase in supermarkets. Meanwhile, the 6.5 percent overall increase in ready-to-eat popcorn pound volume was countered by a 4.9 percent drop in supermarkets.

Overall, only two snack products gained dollar sales in excess of pound growth—pretzels and extruded snacks. The latter category grew 7 percent in pound volume and produced an 8.2 percent increase in dollars.

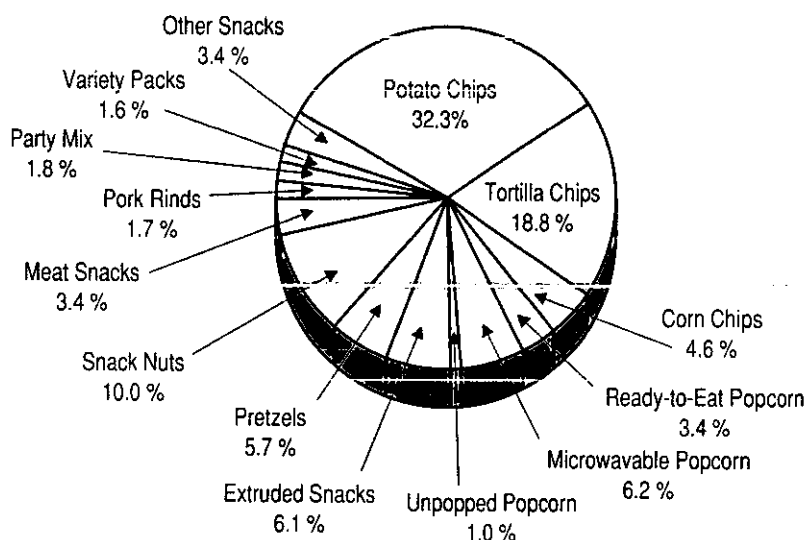
The champion of growth in 1991,

however, was the pretzel category, which experienced a remarkable 18.5 percent gain in pound volume and a 25.6 percent bulge in dollars. It seems the lower-priced pretzel enticed recession-weary consumers to change to something different. Significant growth in pretzel sales prompted Snyder's of Hanover, Hanover, Pennsylvania, to begin construction of a new \$6 million pretzel processing plant last November. According to the company, growth in the segment

1991 Snack Market Shares (Pound Volume)



1991 Snack Market Shares (Dollar Sales)



has exceeded its current manufacturing capacity. The pretzel segment continues to offer a variety of shapes and sizes to consumers. Borden Snacks and International Consumer Products Division says it will introduce a new pretzel product later this year.

Party mix also measured substantial gains, increasing 36.1 percent in dollar sales and 39.3 percent in pound volume. Frito-Lay introduced its Rold Gold brand party mix in 1991.

Of course, the potato chip segment continued its competitive streak. At the same time, a new battle raged in

tortilla chips, where Frito-Lay (with Doritos, Tostitos, and Santitas) dominates. Still, newcomer Eagle Snacks, Dallas, Texas, jumped into the fray on a wide scale, quickly gobbling up a 4 percent share of the tortilla chip business nationally.

In the meantime, the Dallas-based behemoth reformulated the Nacho cheese flavor of its flagship Doritos brand, test-marketed the new version, and launched it this year.

To be sure, the recession had an impact on the industry, but not to the extent it battered other segments of the food business and the economy

in general.

Perhaps hardest hit was vending. Plant closings and layoffs across the country (which reduced the number of vending outlets) impacted companies such as Lance and Tom's Foods, which have heavy business shares in vending. The convenience store (C-store) industry also continued to be rocked by store closings, bankruptcies, and the continued establishment of gas marts by major oil companies. The National Association of Convenience Stores (NACS) reported a 2.3 percent decline in the number of convenience stores—the first year store numbers fell—although sales per store were up. This not only impacted companies like Lance and Tom's, which also do a brisk "up-and-down-the-street" business in small stores, but meat snack producers such as GoodMark Foods, which generates about half of its volume from C-stores.

G. Michael Dillon, chairman, president, and chief executive officer of Tom's, sums up the year in a word: "Terrible." It was complicated, he says, by the potato shortage during the spring of 1991, and the aftermath of the poor peanut crop in the fall of 1990. "Everything that could go wrong did go wrong," he observes. Henry Pully, director of marketing at Lance, calls results for 1991 mixed. "It certainly was not as good as we would have liked it to be. Sales were essentially flat."

The current snack distribution pattern can be seen in the two charts on page SW-7 showing distribution by pound volume and by dollar sales. While 47.7 percent of volume moved through supermarkets, these outlets only generated 44.3 percent of retail sales dollars. A similar relationship held true for grocery stores, mass merchandisers, drug stores, warehouse clubs, and foodservice. Convenience stores and vending, on the other hand, showed substantially higher percentages of sales in dollars than in pounds, due to their relatively high retail prices.

The "other" segment of the distribution pie charts show sales in a variety of other outlets, including military commissaries, which posted 1991 snack sales of about \$67 million and 32 million pounds, according to Military Audits of Market Information, Inc., a Bethesda, Maryland-based research company that tracks sales through these outlets. These figures represent about 0.5 percent of total

A KEY TO DISTRIBUTION OUTLETS

In this report, SFA has defined distribution outlets as follows:

Supermarkets: Food stores with weekly sales of \$2 million or more.

Grocery Stores: Food stores with weekly sales of less than \$2 million.

Mass Merchandisers: Large general merchandise stores that sell large inventories of products with a limited selection of brands.

Drug Stores: Retail stores where prescription and over-the-counter drugs are the primary product line, but some health-and-beauty aids, food, and other products are also sold.

Convenience Stores: Food convenience stores, convenience stores that sell gas, and gas-marts that sell a limited line of small products from a booth.

Vending: Vending machines.

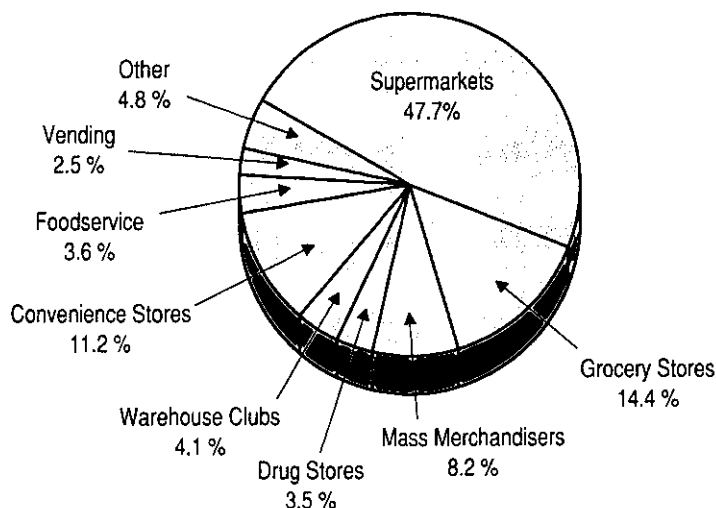
Foodservice: Schools, restaurants, and other institutions that purchase snacks in bulk quantities for sale with prepared meals.

Other: Sales through other outlets, including military stores, bars, truckstops, sports stadiums, liquor stores, small shops, delicatessens, street vendors, newsstands, company-run stores, home delivery, and mail orders.

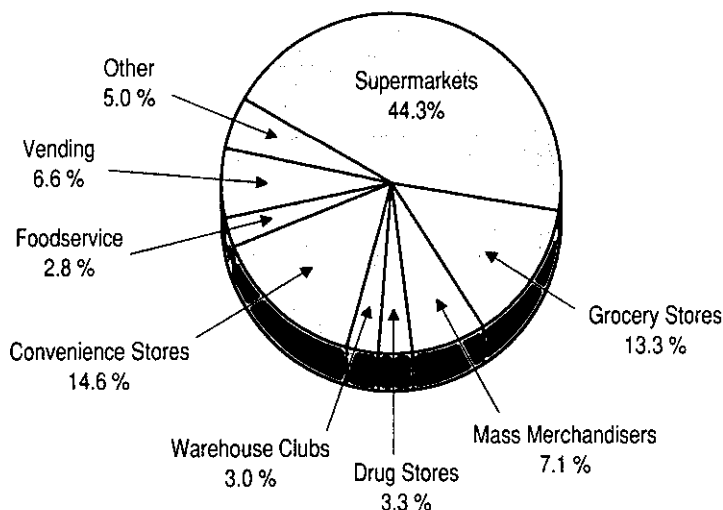
snack industry dollar sales and 0.65 percent of pound volume.

While the furiously competitive environment appears to be a permanent fixture, so does the shelf-buying phenomenon, which burst onto the scene about four years ago. One manufacturer tells of paying \$80,000 in shelf space fees for space in an 80-store chain. After a year, the chain came back and asked for another

1991 Snack Distribution (Pound Volume)



1991 Snack Distribution (Dollar Sales)



payment. The manufacturer offered another \$43,000 for the next year. "A major national got the space for \$220,000," the company executive reports. "We figured it would take us more than two years to get the money back when we paid \$80,000," he explains. "At \$220,000 and the same volume, it will take the competitor more than five years."

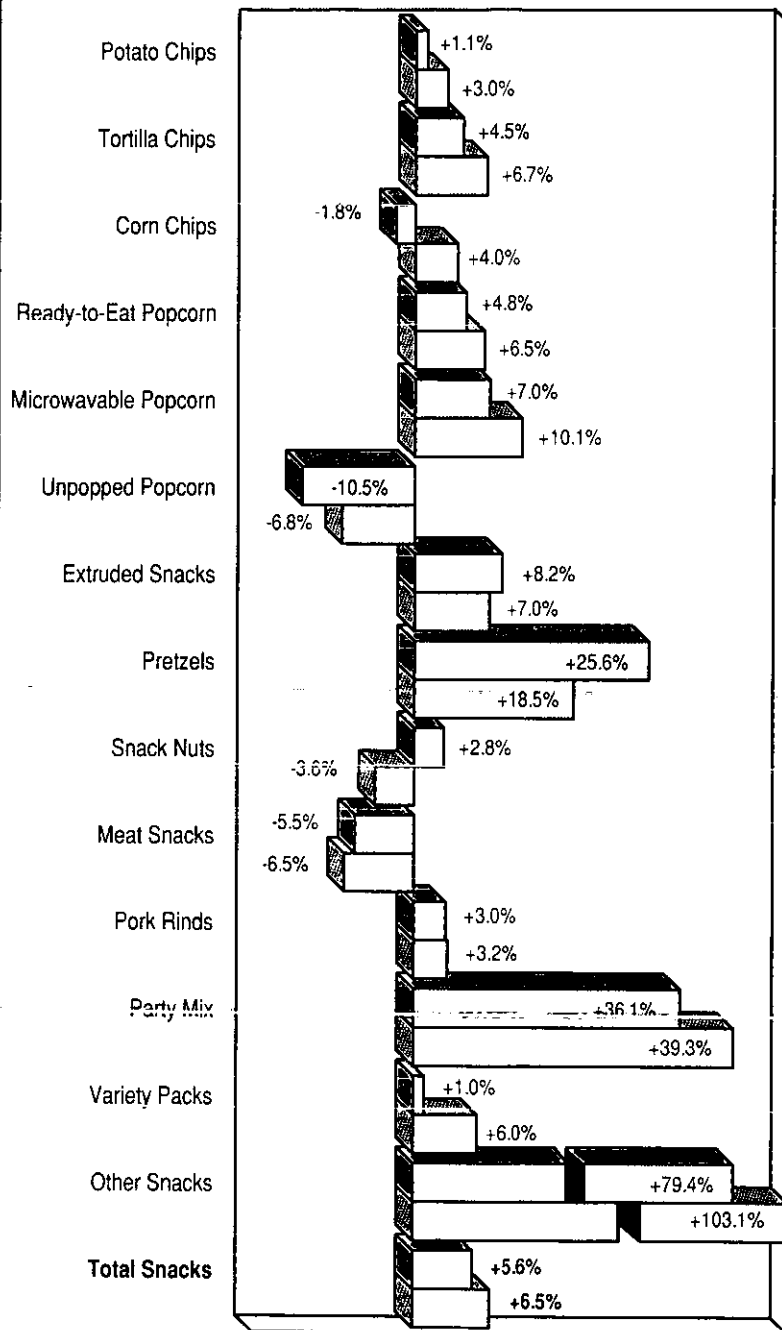
Although manufacturers responding to the annual SFA survey pegged the average amount paid per section-foot of shelf space in 1991 at \$283, many manufacturers report being asked to pay \$500 per foot and more.

"Everybody denies buying shelf space, but everybody's doing it," comments Darrell Troyer, vice president of sales for Troyer Potato Products, Inc., Waterford, Pennsylvania.

Nearly half of all companies responding to SFA's survey say they paid for shelf space and displays, with the percentage soaring to nearly two-thirds among full-line snack companies. Forty-four percent of all companies say they paid more in 1991 than in the previous year. Only 13.5 percent indicate they paid less. The average annual price-tag for an 8-foot end-cap display was \$910.

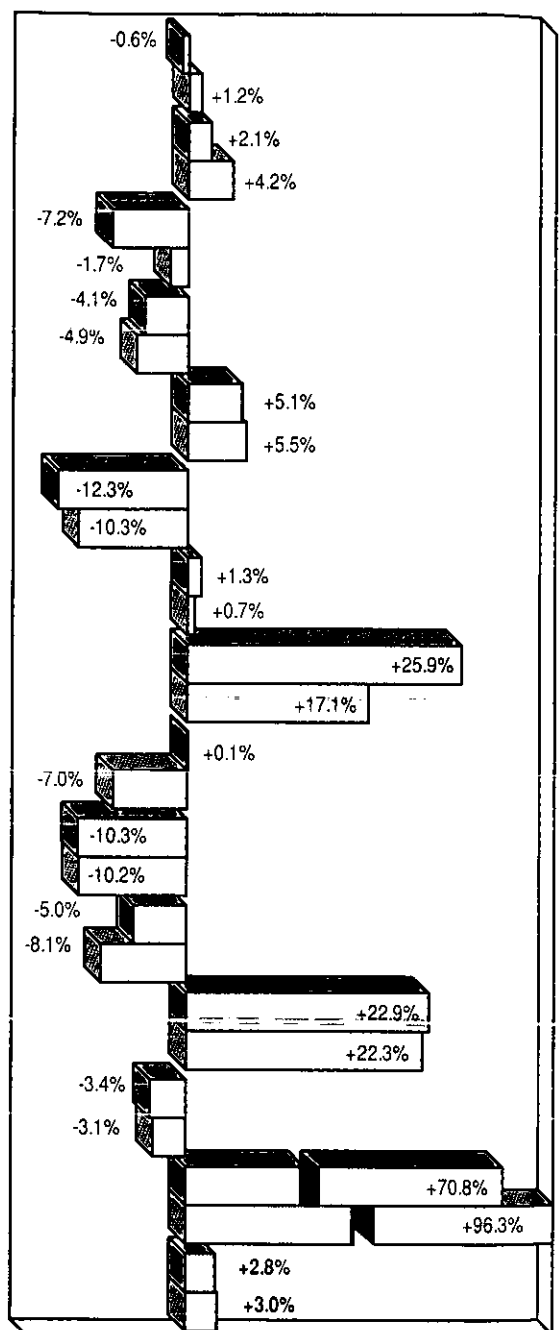
1991 Snack Sales Growth

All Outlets Combined (Percent change from 1990)



Retail Dollar Sales Pound Volume

Supermarkets* Only (Percent change from 1990)



*Supermarkets defined as food stores with weekly sales of \$2 million or more.

Most regional snack manufacturers report slightly bettering the overall industry growth figures. Tommy Murray, for example, who heads Curtice Burns Snack Group in Rochester, New York, reports dollar sales exceeded pound growth, but laments the impact of competition on profits.

"Price wars are not healthy for a bottom line, but we're committed to maintaining our market shares," he

notes. "We're not going to sacrifice our number-two and number-three places in markets." Murray adds that the answer to protecting the bottom line is internal cost reductions, especially in production.

F. Wayne Pate, president of Golden Flake Snack Foods, Birmingham, Alabama, calls it a "crazy business," and points out that everybody is losing something.

"We've had no price increases for a long time," he admits. "Everybody could be doing a lot better. Nobody is willing to give in."

Borden, Inc., for example, told a group of consumer analysts in February that there would be no snack price increases in 1992. In addition to spilling into club stores and mass merchandisers, Borden's immediate goal for renewed earnings growth

includes consolidation of 1,000 to 1,500 line items under a new Borden brand program. A line of single-serving snacks are being test-marketed under the Borden Quality Snacks-Snack Time! name.

In addition, Borden has pledged to defend its market share in the price wars currently sweeping the snack industry. "We intend to stay number-two," Chief Executive Officer Anthony S. D'Amato said in a press conference late last year. Eagle Snacks, Inc., Dallas, Texas, which holds the number-three position behind Frito-Lay and Borden, is expected to post a \$12 million loss for 1991 sales on sales of \$400 to \$500 million, according to *The New York Times*.

"We try not to fight the market share battle," declares Joe Welch, chairman and chief executive officer of The Bachman Company, Reading, Pennsylvania. "It's a matter of discipline. We're in this business not for market share, but to make a profit. 'It doesn't do any good to sell a product—and not make anything on it—to some consumer who would have bought it at the regular price.' Though unit sales for The Bachman Company remained about the same as the previous year, the firm set a new record for profits, according to Welch.

One company that's trying to capi-

talize on an alternative to competing solely on the supermarket shelf is Charles Chips, Lancaster, Pennsylvania, recently acquired from the Musser family by a group of investors. The company, which originally built a highly successful franchise in delivery of snacks to homes and offices, is again concentrating on that aspect of the business, which now accounts for about 35 percent of sales, according to John Rose, president.

"Companies our size can't fight Frito-Lay and Eagle," Rose comments.

The big players—Frito-Lay, Borden, Eagle, and Keebler—continued to slug it out in 1991. Frito-Lay put its aggressive pricing strategy into play and reported its pound volume of snacks grew 7.1 percent, slightly above the industry average. The PepsiCo annual report claimed dollar sales increased 8 percent, 2.4 percentage points above the industry average.

One contributing factor was the company's introduction of Sunchips, a multigrain snack, which Frito-Lay says produced \$100 million in retail sales. However, despite the increase of \$266 million in sales in 1991, Frito-Lay struggled at the bottom line, just like most of the industry. PepsiCo maintains that domestic snack profits declined 16 percent to \$617 million on total domestic sales of \$3.7

billion (equal to about \$5.1 billion in retail sales). Domestically, Frito-Lay took major steps to reduce its costs to help facilitate its pricing strategy. In August, the company offered nearly 3,000 workers at its Dallas, Texas, headquarters incentives to leave the company. In September, it laid off 1,800 employees, which is expected to save the company \$100 million annually.

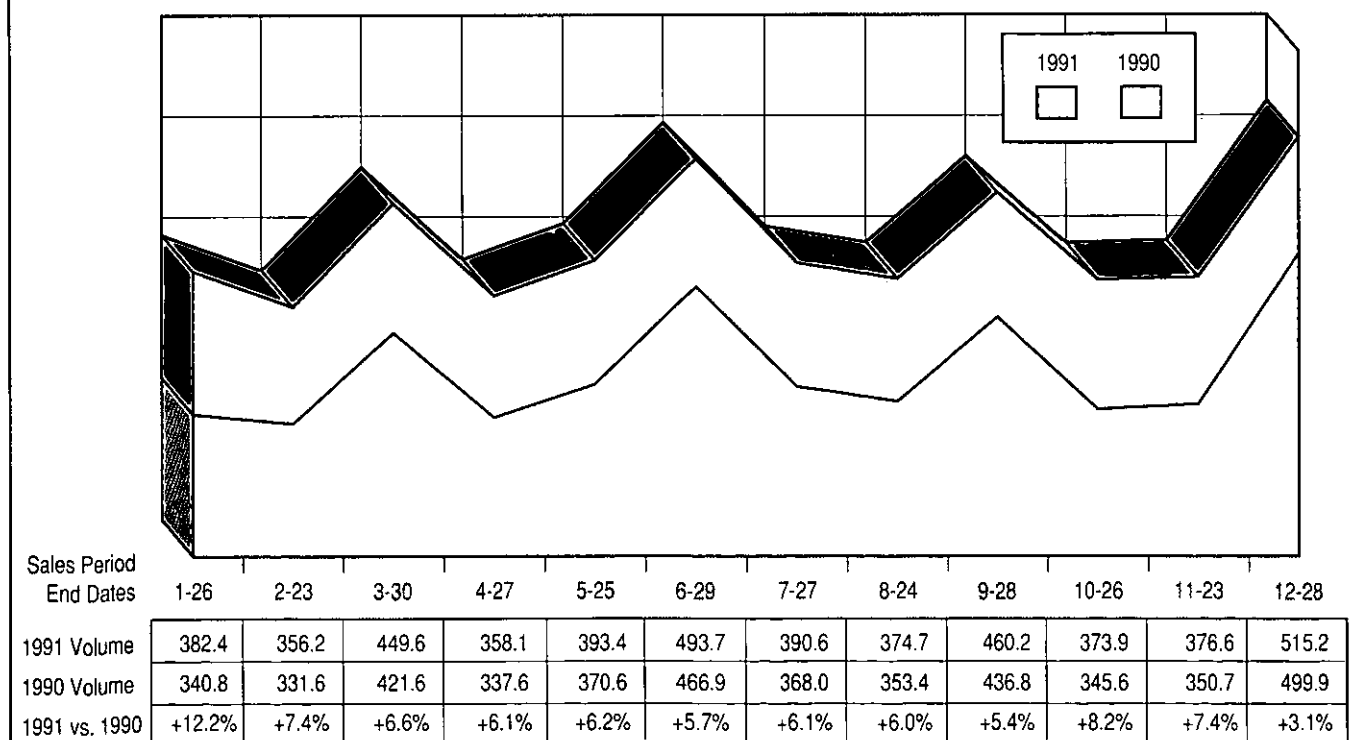
Worldwide, Frito-Lay and PepsiCo Foods International (PFI) produced revenues of \$5.6 billion, up 10 percent from the previous year.

Borden Snacks and International Consumer Products Division, a distant second to Frito-Lay, saw domestic snack sales drop by \$47 million to \$819 million (about \$1.1 billion at retail) in 1991. However, international sales climbed by \$56 million, pushing total worldwide sales to \$1.4 billion.

Borden admits in its annual report that its U.S. sales were down, particularly in the first half of the year, when volume was hurt by heavy promotional spending and price discounting by competitors. To reduce costs and overhead, the company says, it began consolidating North American snack operations from 12 stand-alone profit centers to three. The best performer for Borden was its Eastern

Snack Volume by Sales Periods

(Sales periods reflect some 4-week periods and some 5-week periods. Five-week period end dates shown in red.)



Group, including Wise Foods, which produced a "modest" increase in sales. Borden reports dollar sales were down in both the Central and Western groups, due to severe competition and an aggressive line reduction program. Borden says it plans to be aggressive in the marketplace and will roll out its own brand of multigrain snacks this year.

While still a considerable distance behind Borden, Eagle Snacks continued what President Kevin Bowler describes as methodical growth, adding another share point in 1991. The Anheuser-Busch unit now has a 5-

plus percent share in the snack segments in which Eagle competes.

Sparked by a 20 percent increase in potato chip sales and its successful rollout of tortilla chips (which quickly earned a 4 percent share in that segment), Eagle "delivered better than planned," according to Bowler. On May 25 of this year, when Jay Leno took over "The Tonight Show," the former Doritos ("Crunch all you want, we'll make more") spokesperson brought back live commercials with a spot featuring his sidekick, Edd Hall, along with the Eagle Snacks spoketeam, Tony Randall and Jack

Klugman. This live spot augmented the ongoing Eagle Snacks advertising campaign featuring the slogan "Not all chips are created Eagle."

Keebler Company, Elmhurst, Illinois, which is in a running battle with Eagle for third place in the savory snack derby, had a "great year," according to a company executive who notes that overall sales for cookies, crackers, and snacks climbed from \$1.5 to \$1.7 billion.

More than one-third of that increase came from the introduction of Pizzarias Pizza Chips, which was described as the most successful sa-

THE SPONSOR VIEW OF THE INDUSTRY

The Snack Food Association (SFA) is extremely grateful for the ongoing support of three Associate Member companies that sponsor the SFA *State-of-the-Industry Report* each year. Associate member companies such as these help shape the face of the snack industry, offering important products and services that improve the quality of snacks and the efficiency of snack manufacturers.

Snack World magazine asked key executives from each of these sponsor companies for their views on the industry and their roles in it.



Garner

John Garner is president of Flavorite Laboratories, Inc., Memphis, Tennessee, a flavoring and seasoning company that has served the snack industry since 1958.

Reid J. Frazier is vice president and general manager for Hercules Packaging Films Group, Wilmington, Delaware, one of the largest producers of biaxially-oriented polypropylene (BOPP) film in the United States.

Dennis Love is president of Printpack Inc., Atlanta, Georgia, a

packaging film converter that has been supplying high-quality flexible packaging materials to the snack industry for more than 35 years.

SW: *What is the marketing philosophy that guides your company's business in the snack industry?*

Garner: Flavorite considers itself an innovator in the snack industry today. We will continue our effort to bring new ideas to the table. Our marketing philosophy calls for innovative and creative ideas, consistent product quality, and strong technical support as required to meet today's marketing opportunities. Flavorite will continue to maximize development work with snack food customers on a partnership basis.

Frazier: Hercules Packaging Films Group has two customers to serve in the snack industry—the converters (its direct customers) and the snack producers (its indirect customers). Our marketing philosophy has always been to thoroughly understand the different needs of these two customers so that our products, quality, and distribution systems stay in step with the industry's changing requirements. We believe this means we must continue to generate new film products that are more 'converter-

friendly,' while reducing the development cycle time to bring these products to the marketplace.

Love: Printpack's philosophy as stated in its Snack Foods Division Mission Statement is to "Delight Our Customers." We are working very



Love

hard to make sure we bring the most innovative, cost-effective, and aesthetically pleasing packaging material to our snack food customers — packaging that will protect their product, extend distribution, and create consumer desire to purchase their products.

SW: *The snack industry has changed dramatically during the past 10 years. Mergers and acquisitions have created some larger companies, and several other major companies have entered the snack business. How has this affected your sales efforts?*

Garner: Mergers and acquisitions have had an impact, allowing us greater focus in our product development efforts. These mergers and acquisitions have presented an opportunity to exercise our strength in product development and technical support. That has occurred because some snack companies have decreased their own research efforts, looking more to companies like ours for product development.

vory snack debut in the company's history. Pizzarias, made from authentic pizza cheeses and spices, generated wholesale revenues of \$75 million. The innovative new product was one of the reasons the American Marketing Association (AMA) gave Keebler the New Product Marketer of the Year award. Keebler also received two Gold Edison Awards from AMA for individual new product innovation in developing Pizzarias and Munch 'ems Snack Crackers. Munch 'ems, introduced in the first quarter of 1991 and available in three flavors, generated \$85 million in retail sales.

In 1991, the company also readied the rollout of its entry into the fast-growing multigrain snack segment. Keebler officially introduced Quangles in April 1992, describing it as a "truly snackable chip made from corn, wheat, rice and oats."

Nabisco was also working on a new generation of fat-free cookies and crackers. *Advertising Age* reports that the line tentatively has been tabbed as SnackWells and will be introduced this summer.

The proliferation of snack cracker and bite-size products is sparking growth outside the traditional snack

segments. These products are sold in the cracker aisles and are marketed as alternatives to potato chips. In PepsiCo's annual report, Wayne Calloway, chairman of the board and chief executive officer, says of Frito-Lay's Doritos Cracker Crisps, "We've introduced a cross between a cracker and a chip that may create a whole new snack food category."

Consumers like them because they are something different and they are a lot of fun to look at and eat, reads an article in *The Washington Post* published last fall. And marketers should like them because ounce for ounce,

Frazier: Along with the consolidation of the snack industry due to mergers and acquisitions, we've also noted that the supply of packaging materials to the snack manufacturers is being concentrated among fewer converters. The combination of these changes has allowed us to sharpen our focus on new product development for the industry more effectively. This is one of the main reasons we were able to introduce several new film products within the last two years.

Love: Printpack, too, has changed during the past 10 years. Most recently, we reorganized the company into a divisional structure. This allows us to operate our business with the attitude and service of a small company, while providing our customers with the many advantages of a large, stable corporation. The Snack Foods Division focuses its sales, marketing, technical, and operations efforts only on this important market.

SW: *Where do you see the snack industry going during the next five years, and how will it affect the products you offer to the industry?*

Garner: Regulatory issues continue to be a driving force for all snack food companies. From these issues, there will be more niche opportunities for companies to market innovative new product concepts. The term 'snack foods' continues to be redefined in the 1990s to include crackers and microwavable finger foods, which could cannibalize some traditional snacks. We're go-

ing to have to look at categories that weren't considered snacks not too long ago.

Frazier: From our vantage point, we believe that snack manufacturers will continue to ask for improvements in barrier packaging from their suppliers. Many of today's oriented polypropylene (OPP) films may not satisfy future requirements. Therefore, we will continue to develop improved films that keep pace with the snack industry's need to deliver fresh products to its consumers.

Love: The snack food industry will see a proliferation of new products during the next five years that will require new and unique forms of packaging material and package graphics. Continued market pressure forces Printpack's customers to offer new and more healthful products and, in turn, will require better and more cost-effective packaging. Market share will be the reward for both snack producers and converters that are innovative. In all the industries Printpack serves, we see a stronger emphasis on quality and a trend toward stronger relationships with fewer suppliers.

SW: *How does membership in the Snack Food Association help your company do business with its customers?*

Garner: Flavorite applauds the Snack Food Association and the help it gives us in working with our entire customer base. SFA continues to provide a forum for our involvement with snack companies through such pro-

grams as SNAXPO, committee participation, and other SFA meetings, including A Day in Washington, Top Management, and the Fall Seminar. These kinds of events enable us to monitor what's going on in the marketplace, and gives us a chance to keep current on important issues and changing technology.

Frazier: Understanding the snack manufacturers' needs, as well as their suppliers' needs, requires frequent communication on many issues. The Snack Food Association provides a forum for these discussions through



Frazier

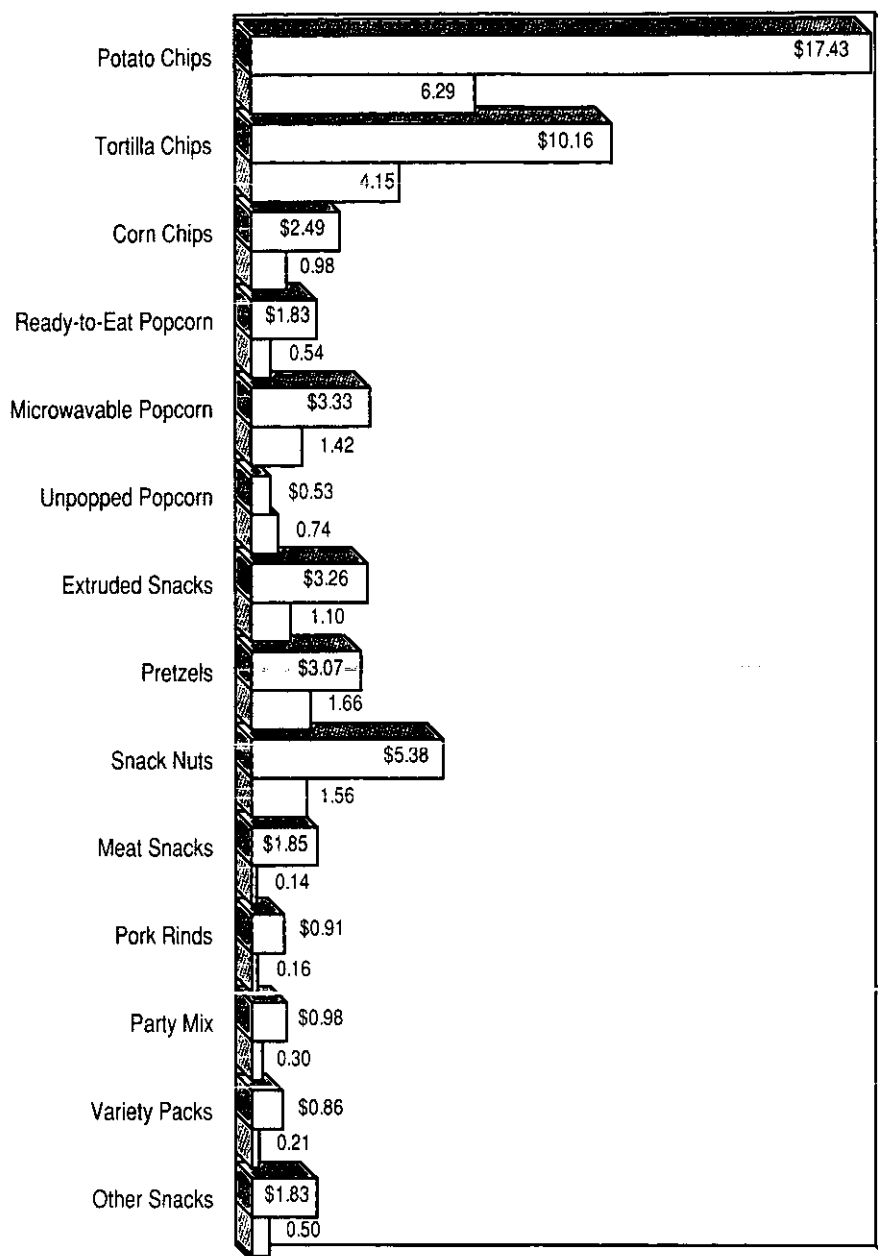
SNAXPO, marketing seminars, and within the various committees where members can meet and talk to their customers about their business and problems. As in any business, most ideas for new products

originate by listening to the customer. Membership in SFA is a key element in the process to turn those ideas and problems into real products.

Love: The Snack Food Association not only keeps us in touch with our primary customer base, but affords us the opportunity to work hand-in-hand to make a better industry for all of us. Both Business and Associate Members have a common interest to promote snack foods. We are proud to participate and support the Snack Food Association.

1991 Per-Capita Snack Consumption

Retail Dollar Sales (Millions)
 Pound Volume (Millions)



Total 1991 Per-Capita Snack Consumption:
 (Based on Continental U.S. Population of 249,137,400)

\$53.91 (+4.7%)
19.75 Pounds (+6.3%)

Total 1990 Per-Capita Snack Consumption:
 (Based on Continental U.S. Population of 247,052,000)

\$51.49 (+6.0%)
18.70 Pounds (+3.5%)

Total 1989 Per-Capita Snack Consumption:
 (Based on Continental U.S. Population of 246,597,000)

\$48.58 (+8.3%)
18.09 Pounds (+2.7%)

Total 1988 Per-Capita Snack Consumption:
 (Based on Continental U.S. Population of 244,163,000)

\$44.85 (+2.5%)
17.61 Pounds (+0.7%)

Total 1987 Per-Capita Snack Consumption:
 (Based on Continental U.S. Population of 241,820,000)

\$43.75
17.49 Pounds

consumers are paying more for less. That means more sales without spending a lot of money introducing totally new brands.

Although the trend began with the 1987 introduction of Ritz Bits by Nabisco, Keebler leads the more recent flurry of entries with such products as Wheatables (introduced in 1988), Munch 'ems, and Snacklins. Frito-Lay is getting on the bandwagon with McCracken's, currently being test-marketed in Indiana. Frito-Lay spokesperson Beverly Holmes says in *Confectioner* magazine that the newness of miniature snacks is much of the appeal. "It adds some news to a brand," she notes.

In 1990 Frito-Lay introduced a bite-size version of its Tostitos brand tortilla chips, and recently rolled out a bite-size Doritos tortilla chip. Other bite-size Frito-Lay products in test markets include Doritos Cracker Crisps and a bite-size Sunchip multigrain snack chip. Additionally, Lance, Inc., Charlotte, North Carolina, plans to introduce a mini-round tortilla chip. It's likely that the industry will see many "me too" products in this segment. The article, "Honey, They Shrunk the Snacks," in this issue of *Snack World* provides a more detailed look into the snack cracker and bite-size snack market.

Frito-Lay is also trying to reverse the stagnancy of the potato chip segment by reformulating its Lay's and Ruffles brand potato chips. The changes in the nation's number-one and number-two chips—the first since 1932—are designed to make them crispier and taste more like potatoes. Among the changes is a switch from soybean oil to cottonseed oil and a 12 percent cut in salt content. According to *The Wall Street Journal*, the reformulation is an attempt to boost Frito-Lay's market share in the potato chip business, which was flat in 1991 at 34.4 percent, while Eagle Snacks' share grew to 6.9 percent from 5.8 percent a year earlier. Borden's share was also flat at 15.6 percent, according to the *Journal*.

POTATO CHIP PRICING GIVES CONSUMERS A BREAK

1991 Dollar Sales: \$4.342 Billion (+1.1 %)
1991 Pound Volume: 1.567 Billion (+3.0 %)

If you look carefully at the numbers for potato chip sales in 1991, it's clear that the beneficiary of pricing wars in the industry's largest segment was the consumer.

The primary battlefield in the ongoing "snack wars" brought a 3 percent increase in pound volume, but only a 1.1 percent increase in dollar sales. In supermarkets, pound volume grew only 1.2 percent, and dollar sales fell 0.6 percent. You have to wonder what might have happened to the segment had there not been what one snack food executive called "insane" pricing.

No one illustrated it more vividly

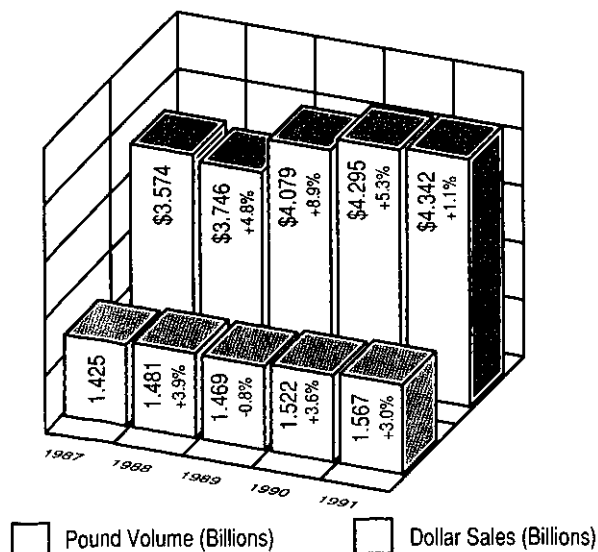
than J. Wesley Felton, president of Granny Goose Foods of Oakland, California. "When I came out here in 1982, we were selling a 7.5-ounce twinpack at a wholesale price of 89 cents," Felton recalls. "Last year we sold a 6.5-ounce twinpack for as low as 62 cents to meet competition." Industry sources say that by the time a manufacturer pays for trade allowances and shelf space, it's tough to make money at 75 cents for the same size package. All the consumer has to do in the typical supermarket is sit back and wait for the lowest-priced deal of the week.

While these anecdotes illustrate the

extremes of the price war, average price-per-pound data provided by Nielsen Marketing Research shows the average for supermarkets at \$2.61, only slightly higher than other trade outlets that traditionally sell larger packs for a lower price per pound. In 1990, the average price per pound in supermarkets was \$2.71.

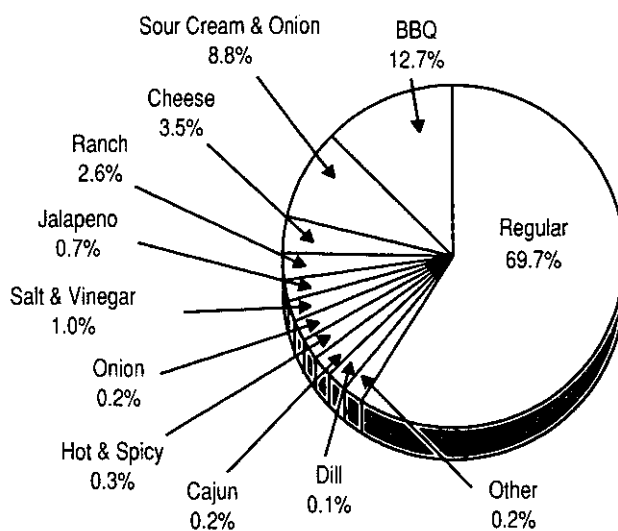
The price wars for the traditional potato chip products have sent the once high-flying kettle-style potato chip segment limping, suffering an 11.0 percent drop in pound volume in supermarkets from the previous year. Kettle-style chips now comprise 6.9 percent of potato chip pound volume

Potato Chip Sales



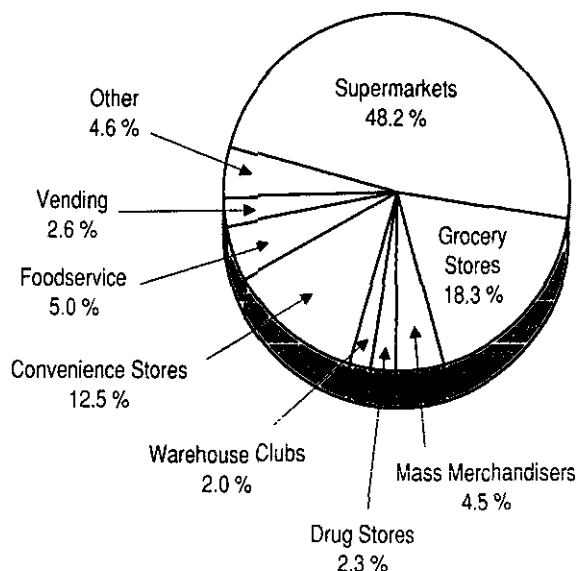
1991 Potato Chip Flavors

(Measured in Pound Volume)



1991 Potato Chip Distribution

(Measured in Pound Volume)



1991 Potato Chip Prices

Outlet	Price Per Pound
Supermarkets	\$2.61
Grocery Stores	\$2.53
Mass Merchandisers	\$2.46
Drug Stores	\$2.52
Warehouse Clubs	\$2.14
Convenience Stores	\$3.31

Supermarket-only growth figures show steady increases in the popularity of barbecue flavor (up 4.7 percent) and sour cream and onion (up 7.1 percent). Onion flavor fell 21.8 percent and cheese flavor was down 6.7 percent. Salt and vinegar, an up-and-coming flavor in the United States following heavy popularity in England and other portions of Europe, rose 24.6 percent. Hot and spicy flavor was also up 20.7 percent. Cajun seasoning was a loser, falling 47.9 percent.

Low-oil potato chips continue to retain a niche in the potato chip business, representing 3.2 percent of pound volume in 1991. In supermarkets, low-oil potato chips increased 7.3 percent in pound volume. Low-salt potato chips rose 23.7 percent among supermarket shoppers, helping them capture 0.6 percent of potato chip pound volume. This relatively new product appears to be attracting consumers who previously purchased no-salt potato chips, since the no-salt segment declined 14.0 percent in supermarkets, lowering its share of pound volume to 1.5 percent. Salted potato chips still retain a dominant 97.9 percent of pound volume.

Overall, there was very little new product or line extension activity in the potato chip segment; manufacturers were content to slug it out with their traditional offerings. However, the newly formed Colorado Gold

and 8.3 percent of dollar sales.

Eagle Snacks President Kevin Bowler, whose company produces the popular Cape Cod brand potato chips, says premium pricing was only one of the problems facing kettle-style chips. Others, he explains, include the narrowness of the hardbite texture segment, and the fact that kettle-style potato chips have lost some of their newness. On the other hand, Bowler points out that sales of Cape Cod potato chips were up slightly, largely because of the introduction of new flavors.

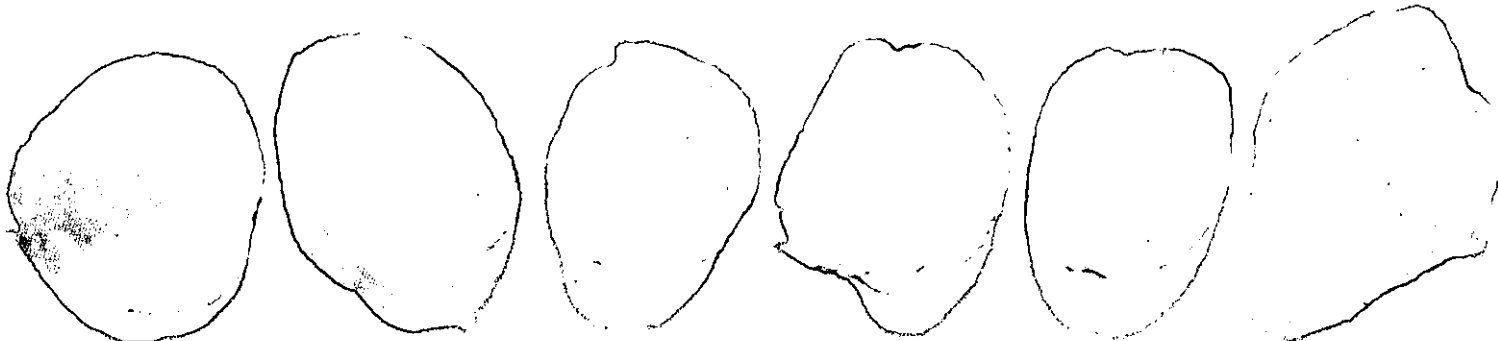
Borden also added two new flavors to its Krunchers! line—sour cream and onion, and salt and vinegar.

In supermarkets, ridged chips lost 1.8 percent in pound volume in 1991, but the regular potato chip segment climbed 5.9 percent in pound volume, largely due to heavy promotion. Fabricated potato chips grew 1.0 percent.

Regular potato chips now account for 45.1 percent of potato chip pound

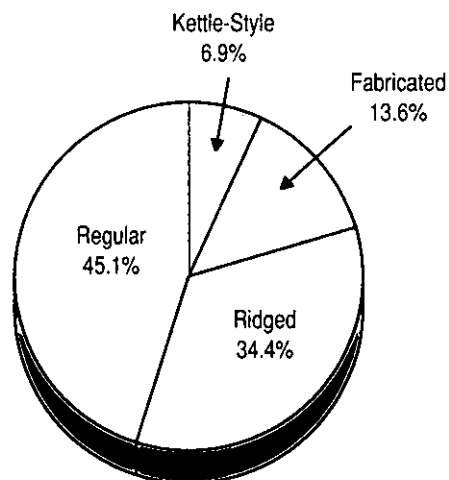
volume, followed by ridged at 34.4 percent, fabricated at 13.6 percent, and kettle-style at 6.9 percent. Nearly 70 percent of potato chips sold were of the regular variety. Top flavors were barbecue at 12.7 percent and sour cream and onion with 8.8 percent.





1991 Potato Chip Types

(Measured in Pound Volume)



Chips, Inc., Colorado Springs, Colorado, began producing Chips O'Gold Crisp Chips extra crunchy potato chips in jalapeño, mesquite barbeque, sour cream and onion, and regular flavors in several western states, and plans to expand distribution this year. Frito-Lay added a Monterey Jack flavor to its line of Ruffles potato chips.

The potato chip segment suffered through another weather-related catastrophe, when shortages in the Spring crop sent open market potato

prices soaring to the \$20-to-\$25 per hundred-weight range, a level at which only those with deep pockets continued to promote heavily. As a result, many companies pulled back promotional activities until the storm subsided. From summer on, supplies

and prices were in line with expectations. In fact, by year-end, favorable raw material costs for the potato chip category had manufacturers talking about increased profits for 1992. Total dollar sales for potato chips reached \$4.34 billion, while pound volume totaled 1.56 billion.

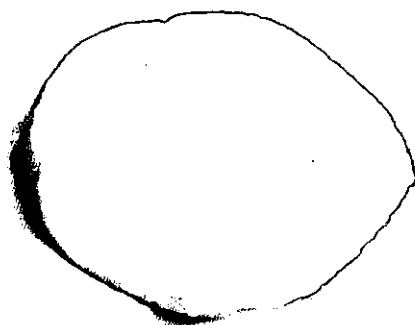
Although grocery stores and supermarkets continued to be the main arena for potato chip purchases, two other retailing segments picked up growing segments of the business. By the end of 1991, mass merchandisers had 4.5 percent of the category purchases, while club and membership stores reached 2 percent.

Pricing data compiled for all outlets showed the wide range of prices consumers pay on a per-pound basis. The vending category, in which only small bags are sold, generated 45 cents an ounce, or \$7.20 per pound, while convenience stores averaged \$3.31 per pound. Supermarkets, with sales of more than \$2 million annually, generated 48.2 percent of the potato chip volume, at an average price of \$2.61 per pound. Grocery stores—with weekly sales volume under \$2 million—weighed in at \$2.53

1991 Potato Chip Types By Region

(All Figures Represent Percentages)

Region	Percent of Potato Chip Market	Regular	Ridged	Kettle-Style	Fabricated
TOTAL U.S.	100.0	45.1	34.4	6.9	13.6
New England	5.7	46.1	29.7	12.5	11.7
Mid-Atlantic	14.6	49.6	30.5	8.0	11.9
East Central	17.4	46.0	36.2	6.0	11.8
Southeast	18.1	42.5	33.7	5.6	18.2
Southwest	10.9	44.5	33.9	6.1	15.5
West Central	18.4	42.8	37.5	6.3	13.4
Pacific	14.9	46.1	35.4	7.4	11.1



1991 Potato Chip Flavors By Region

(All Figures Represent Percentages)

Region	Percent of Potato Chip Market	Regular	BBQ	Sour Cream & Onion	Cheese	Ranch	Other
TOTAL U.S.	100.0	69.7	12.7	8.8	3.5	2.6	2.7
New England	5.7	81.5	6.0	7.0	1.4	1.6	2.5
Mid-Atlantic	14.6	77.2	8.8	8.6	1.8	1.4	2.2
East Central	17.4	74.1	11.6	5.6	4.6	2.5	1.6
Southeast	18.1	64.6	15.1	9.8	3.6	3.5	3.4
Southwest	10.9	63.2	15.7	12.1	2.3	3.9	2.8
West Central	18.4	72.5	11.1	7.3	4.9	2.4	1.8
Pacific	14.9	60.1	17.4	11.5	3.8	2.6	4.6

per pound.

Regional preferences show that kettle-style potato chips remain a favorite in New England. Fabricated potato chips, including Procter & Gamble's Pringles, Keebler's O'Boisies and Tato Skins, and Frito-Lay's Munchos, proved popular in the Southeast and Southwest. Regular potato chips had a strong showing in the Mid-Atlantic states, New England, and Pacific states, while ridged potato chips did well in the East Central and West Central regions, as well as in the Pacific states.

Regular flavor potato chips were strongest in New England, the Mid-Atlantic, and East and West Central regions, but were least popular in the Pacific Region, where other flavors, including barbeque and sour cream and onion, did well.



RESTAURANT-STYLE TORTILLA CHIPS LEAD GROWTH

1991 Dollar Sales: \$2.531 Billion (+4.5 %)
1991 Pound Volume: 1.033 Billion (+6.7 %)

There was plenty of activity in the tortilla chip segment in 1991, including perhaps the toughest competition in the history of the category. Although flavored tortilla chips did not do particularly well, restaurant-style tortilla chips were extremely popular, helping to push to segment ahead at a healthy pace.

Pound volume, up a half percent over the 1990 increase, edged over 1 billion for the first time, but the dollar sales boost was 2 percent below the growth rate of the previous year. Total industry sales reached \$2.53 billion.

There were a number of big stories in the segment during 1991. The first was Eagle Snacks' aggressive rollout of tortilla chips across the country.

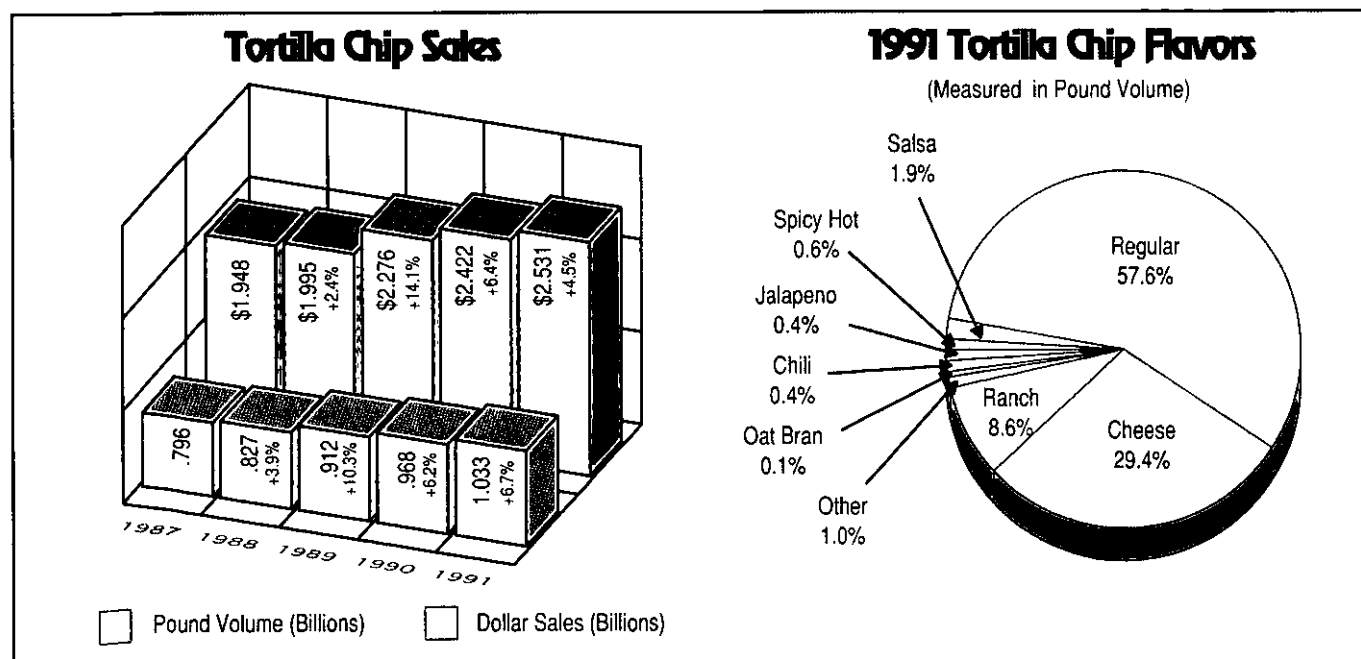
Eagle Snacks, the Anheuser-Busch unit now headquartered in Dallas, Texas, pushed its way to a 4 percent share of the segment.

While conceding that it was still only a small share, Kevin Bowler, Eagle Snacks' president, says it was good enough to position Eagle as the number-two brand of tortilla chips nationally.

Eagle's entry triggered the most aggressive tortilla chip pricing since 1966, when Frito-Lay introduced Doritos. Sharply reduced prices for traditional sizes and two-for-one promotions were widely competitive ploys. "Eagle's entry into the tortilla chip business helped to expand the category," comments D. Warren

Brown, president of Wyandot, Inc., Marion, Ohio. "The marketplace was a lot more competitive, with lots of promotions, including couponing and buy-one, get-one free."

As the dominant supplier of tortilla chips for the American consumer, Frito-Lay has been the obvious target of all the players entering the category. According to *The Wall Street Journal*, quoting Nielsen Marketing Research, supermarket sales of Doritos fell nearly 10 percent in the year ending March 21, 1992, to \$440.6 million, and its market share dropped five points to 39.3 percent. However, Frito-Lay told the publication that supermarket sales of Doritos were down only about 3 percent and over-



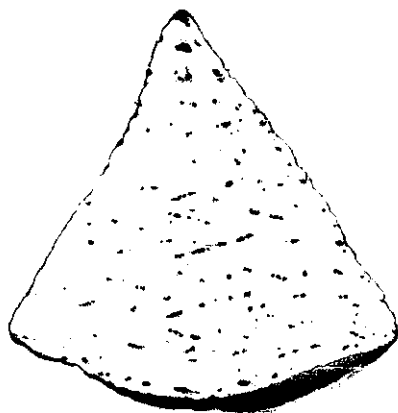


1991 Tortilla Chip Prices

Outlet	Price Per Pound
Supermarkets	\$2.23
Grocery Stores	\$2.29
Mass Merchandisers	\$2.06
Drug Stores	\$2.17
Warehouse Clubs	\$1.75
Convenience Stores	\$2.91

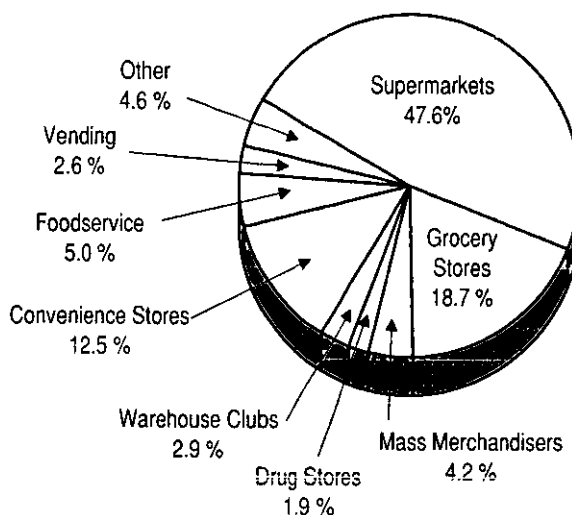
all retail sales up 0.5 percent in 1991. Concerned about the future of its flagship tortilla chip brand, Frito-Lay began test-marketing a reformulated version of Nacho Cheese Doritos in late 1991. The new version is said to be 20 to 30 percent cheesier with less garlic and aftertaste. Frito-Lay told *The Wall Street Journal* that the new formulation increased sales 10 percent in tests in Denver, Colorado. Quoting Stephen Liquori, vice president, marketing, the *Journal* reported: "As the market heated up over the last several years, it became apparent we had to do different things with Doritos. Taste preferences have changed over time." The "new" Doritos rolled out in April, backed by a major advertising push.

Frito-Lay also introduced a bite-



1991 Tortilla Chip Distribution

(Measured in Pound Volume)



size version of its popular Doritos and Tostitos tortilla chips, and is test-marketing Doritos Cracker Crisps in Indiana.

While Frito-Lay was tinkering with Doritos, it struck gold with a white corn, restaurant-style version of its popular Tostitos. The new entry promptly captured an estimated \$100 million in retail sales in 1991. That's on top of the estimated \$226 million in worldwide retail sales for the round Tostitos, introduced in 1981.

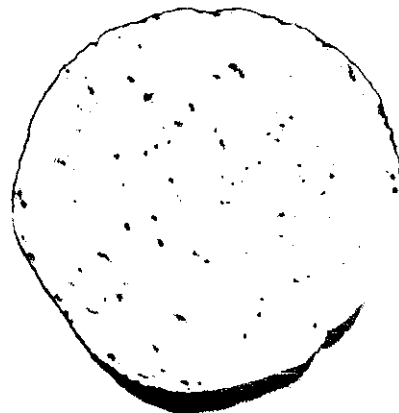
In its current annual report, PepsiCo, Inc., says Frito-Lay's Santitas traditional restaurant-style tortilla chip posted an estimated \$153 million in retail sales, while Doritos, the product that started it all in 1966, had worldwide retail sales of \$1.3 billion in 1991.

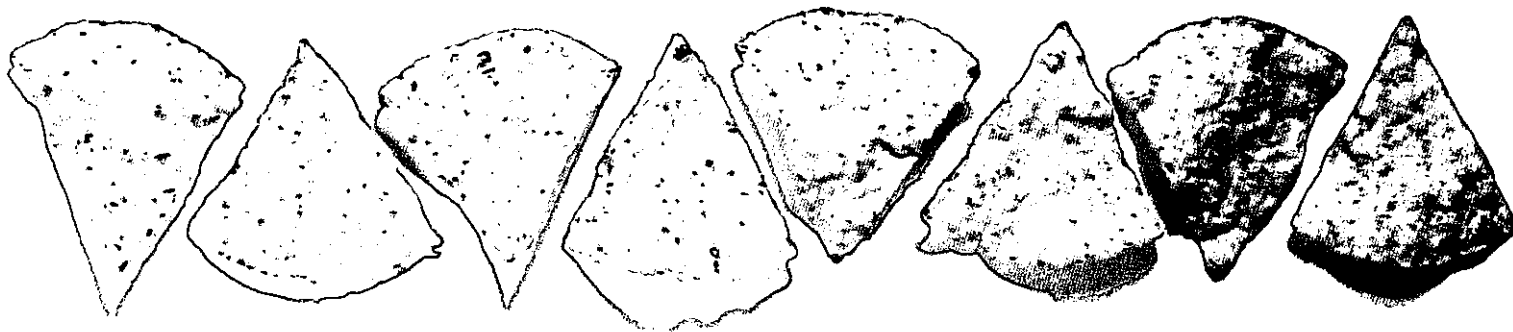
Borden Snacks and International Consumer Products Division also added LaFamous White Corn Restaurant-Style tortilla chips to its national brand listing, while Hiland Potato Chip Company, a division of Curtice Burns Snack Group, introduced its own Restaurant-Style white and yellow corn tortilla chips in Iowa, South Dakota, Minnesota, Illinois, Missouri, and

Nebraska.

All the tortilla chip growth didn't occur on retail shelves, however. Gaylen Legan, president of Mission Foods, Los Angeles, California, reports his company's foodservice business has "exploded," thanks to expansion of salad bar concepts by fast-food chains. Some now include tortilla chips and melted cheese as part of the menu.

In supermarkets, tortilla chip sales





grew at a slower rate than the overall segment performance—dollar sales rose only 2.1 percent while pound volume increased 4.2 percent. The flavor trends were apparent in supermarkets, where consumers gave regular tortilla chips a 10.3 percent lift during 1991, reflecting the rise in restaurant-style tortilla chips. Salsa, jalapeño and spicy/hot flavors all dropped off substantially.

Low-salt versions of tortilla chips were increasingly popular last year, rising 36.0 percent among supermarket shoppers to capture 5.7 percent of total tortilla chip pound volume. Unsalted varieties fell 5.5 percent in supermarkets, and now stand at 3.2 percent of pound volume. Salted tortilla chips account for 91.1 percent of pound volume.

Low-oil tortilla chips fell dramatically during 1991—off 54.5 percent in supermarkets. These products only account for 1 percent of total tortilla chip pound volume.

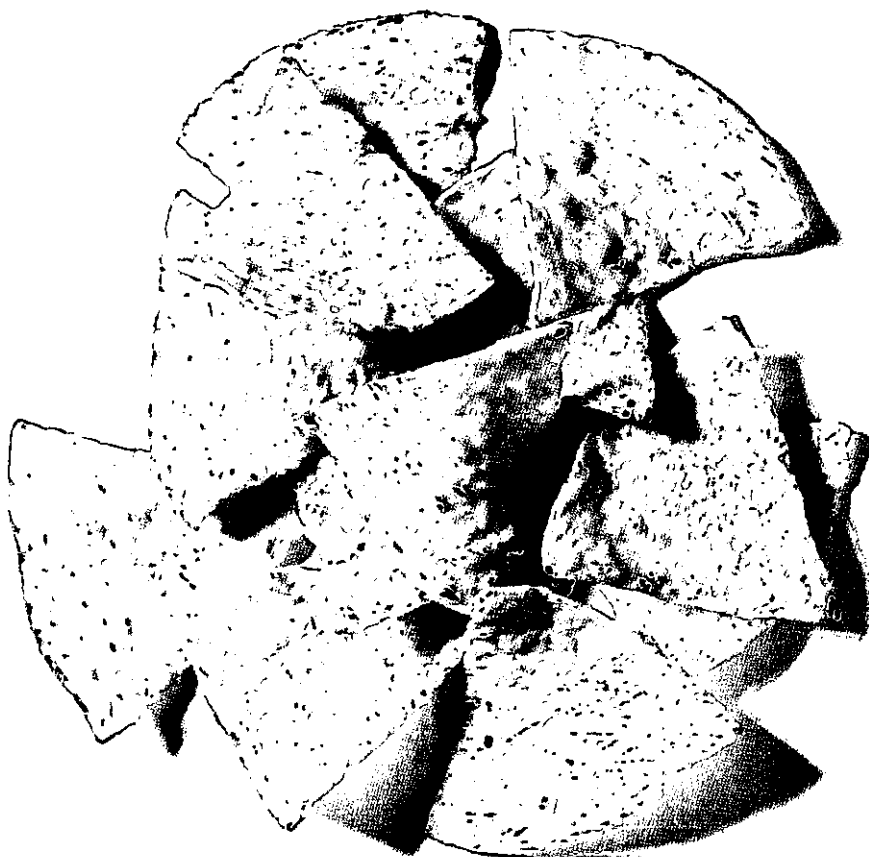
Regionally, regular tortilla chips were most popular in the Southwest and Pacific regions, followed by the West Central and Southeast regions.

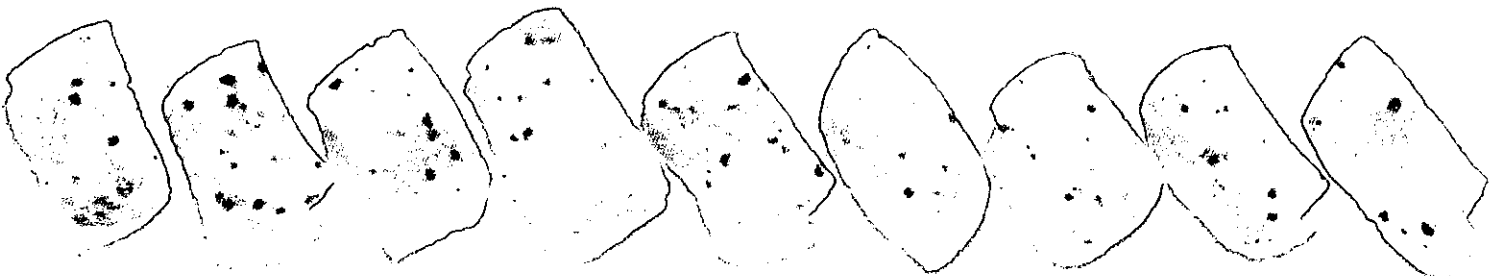
Supermarkets and grocery stores continued to get the lion's share—better than 66 percent—of tortilla chip pound volume, while mass merchandise stores garnered 4.2 percent of sales and warehouse club stores 2.9 percent. The average price per pound of tortilla chips in supermarkets (stores with more than \$2 million in annual sales) was \$2.23 and in grocery outlets (stores with less than \$2 million in annual sales) was \$2.29. In mass merchandise stores, the average price per pound dropped to \$2.06 and in membership and club stores, it averaged \$1.75.

1991 Tortilla Chip Flavors By Region

(All Figures Represent Percentages)

Region	Percent of Tortilla Chip Market	Regular	Cheese	Ranch	Other
TOTAL U.S.	100.0	57.6	29.4	8.6	4.4
New England	3.9	47.2	36.4	12.2	4.2
Mid-Atlantic	9.7	48.0	37.6	10.1	4.3
East Central	13.2	53.0	35.4	9.3	2.3
Southeast	13.2	54.3	33.8	9.4	2.5
Southwest	16.3	67.1	22.2	6.4	4.3
West Central	20.2	56.9	30.5	8.9	3.7
Pacific	23.5	61.7	23.3	7.8	7.2





CORN CHIPS REMAIN SLUGGISH IN 1991

1991 Dollar Sales: \$620.7 Million (-1.8 %)
1991 Pound Volume: 243.7 Million (+4.0 %)



The corn chip segment generated a 4 percent increase in pound volume in 1991, but competitive pressures resulted in a drop in dollar sales, which decreased 1.8 percent to \$620.7 million, marking the second consecutive year of dollar sales declines. In 1990, dollar sales were off 5.4 percent, while pound volume was also down 4.4 percent.

Supermarket-only sales for 1991 showed an even bleaker picture. Dollar sales were off 7.2 percent and pound volume was down 1.7 percent in these outlets.

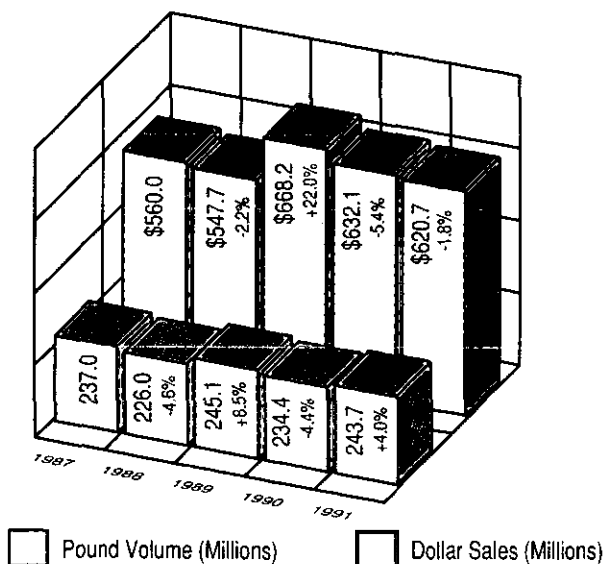
In early 1991, Frito-Lay, which dominates the segment, rolled out Non-Stop Nacho Fritos corn chips, a product the company says was aimed

primarily at teenagers, especially boys aged 10 to 18.

A Frito-Lay spokesperson quoted in *Adweek* magazine noted, "The growth of Fritos has been sluggish compared to the rest of the industry. Those people enjoying Fritos in the 1950s and 1960s are aging and not snacking as much...[we've] repositioned [our corn chips] to reflect these demographic changes."

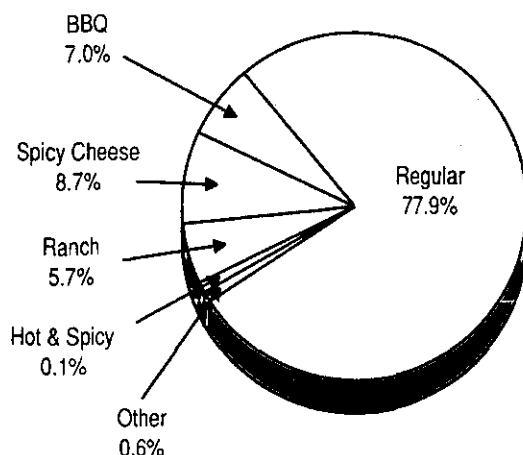
Frito-Lay hoped that the Non-Stop Nacho flavor would increase sales of its corn chips as it did for its Doritos tortilla chips. The company presented a redesigned Fritos logo on the package and brought back the "Muncha Buncha Fritos" advertising campaign popular in the 1960s.

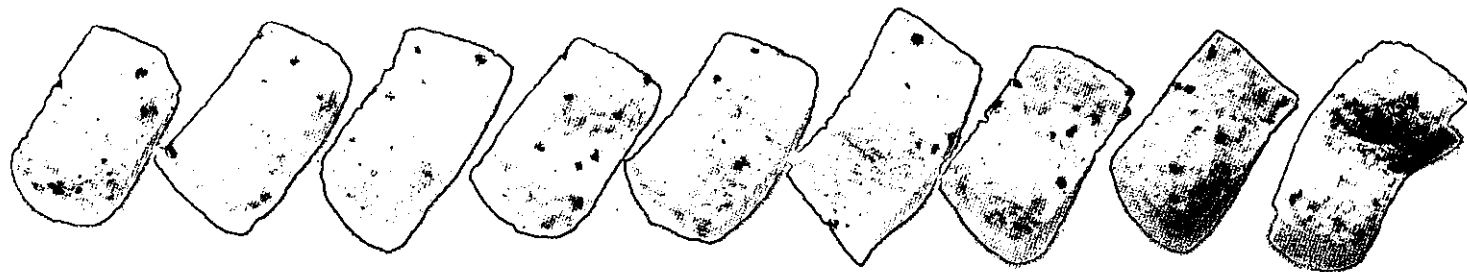
Corn Chip Sales



1991 Corn Chip Flavors

(Measured in Pound Volume)





1991 Corn Chip Prices

Outlet	Price Per Pound
Supermarkets	\$2.43
Grocery Stores	\$2.38
Mass Merchandisers	\$2.34
Drug Stores	\$2.26
Warehouse Clubs	\$2.18
Convenience Stores	\$2.96

The biggest sales period for corn chips was just before the Fourth of July holiday—driven by aggressive promotions. There was very little disparity in the per-pound price of corn chips among most of the major outlet categories. The price per pound ranged from \$2.34 at mass merchandisers to \$2.43 in supermarkets, which account for more than 50 percent of corn chip sales.

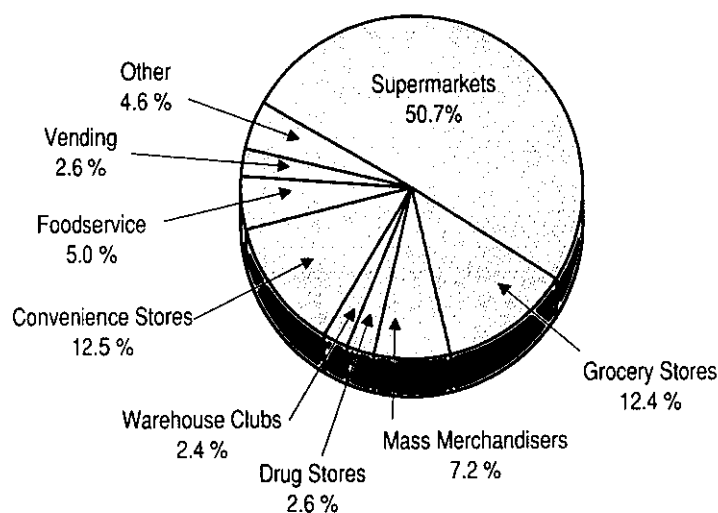
Shoppers in convenience stores paid an average of \$2.96 per pound. Lowest cost per pound was \$2.18 in warehouse club stores, where 2.4 percent of pound volume was sold.

Regular corn chips were the most popular flavor, accounting for almost 78 percent of corn chip volume. As flavors go, spicy cheese managed to jump 10.9 percent in supermarkets, while barbecue, Ranch, and hot and spicy all decreased more than 6 per-



1991 Corn Chip Distribution

(Measured in Pound Volume)



cent in supermarkets.

Low-salt and no-salt varieties together comprise only 0.5 percent of pound volume. Supermarket data shows that low-salt pound volume dropped 9.7 percent, while sales of no-salt corn chips rose 18.4 percent.

Broken down by region, corn chips did best in the Southwest, Southeast,

West Central, and Pacific states, with spicy cheese being most popular in the Pacific states. Barbecue was favored in the Southeast, East Central, and Mid-Atlantic regions, while Ranch did best in the Pacific region. Regular corn chips were popular across all regions, but were the favorite in New England and the Southwest.

1991 Corn Chip Flavors By Region

(All Figures Represent Percentages)

Region	Percent of Corn Chip Market	Regular	Barbecue	Spicy Cheese	Ranch	Other
TOTAL U.S.	100.0	77.9	7.0	8.7	5.7	.6
New England	3.8	84.4	5.2	4.9	4.5	1.0
Mid-Atlantic	12.2	76.7	10.5	6.5	5.8	0.5
East Central	13.9	74.5	11.0	8.5	5.5	0.5
Southeast	16.3	76.1	12.7	5.6	4.5	1.1
Southwest	21.2	84.5	3.7	7.8	3.5	0.5
West Central	16.8	75.5	5.8	10.8	7.1	0.8
Pacific	15.8	75.8	0.7	13.9	9.0	0.6



POPCORN GROWTH SLOWS AS MARKET MATURES

TOTAL POPCORN

1991 Dollar Sales: \$1.418 Billion (+4.4 %)

1991 Pound Volume: 671.6 Million (+4.2 %)

READY-TO-EAT POPCORN

1991 Dollar Sales: \$455.3 Million (+4.8 %)

1991 Pound Volume: 133.6 Million (+6.5 %)

MICROWAVABLE POPCORN

1991 Dollar Sales: \$830.0 Million (+7.0 %)

1991 Pound Volume: 353.0 Million (+10.1 %)

UNPOPPED POPCORN

1991 Dollar Sales: \$132.4 Million (-10.5 %)

1991 Pound Volume: 185.0 Million (-6.8 %)

While recent years have seen impressive growth in the popcorn segment, 1991 was a year of modest growth for both ready-to-eat and microwavable popcorn as both categories began to level out following a flurry of new product introductions. Unpopped popcorn continued its steady decline.

As in several other segments, pound volume growth exceeded dollar sales increases in ready-to-eat and microwavable popcorn due to heavy competition in those segments and strong growth in low-price distribution outlets such as mass merchandisers and warehouse clubs, where both types of popcorn have carved out large niches.

In the case of ready-to-eat popcorn,

this growth into new outlets came at the expense of supermarket sales. In supermarkets, dollar sales fell 4.1 percent and pound volume was off 4.9 percent for ready-to-eat popcorn—a shocking development for a segment that posted an average 19 percent gain in dollar sales in 1989 and 1990.

Microwavable popcorn fared better in supermarkets, retaining dollar sales growth of 5.1 percent and a pound volume increase of 5.5 percent; significantly less than its overall 1991 growth but still a healthy increase.

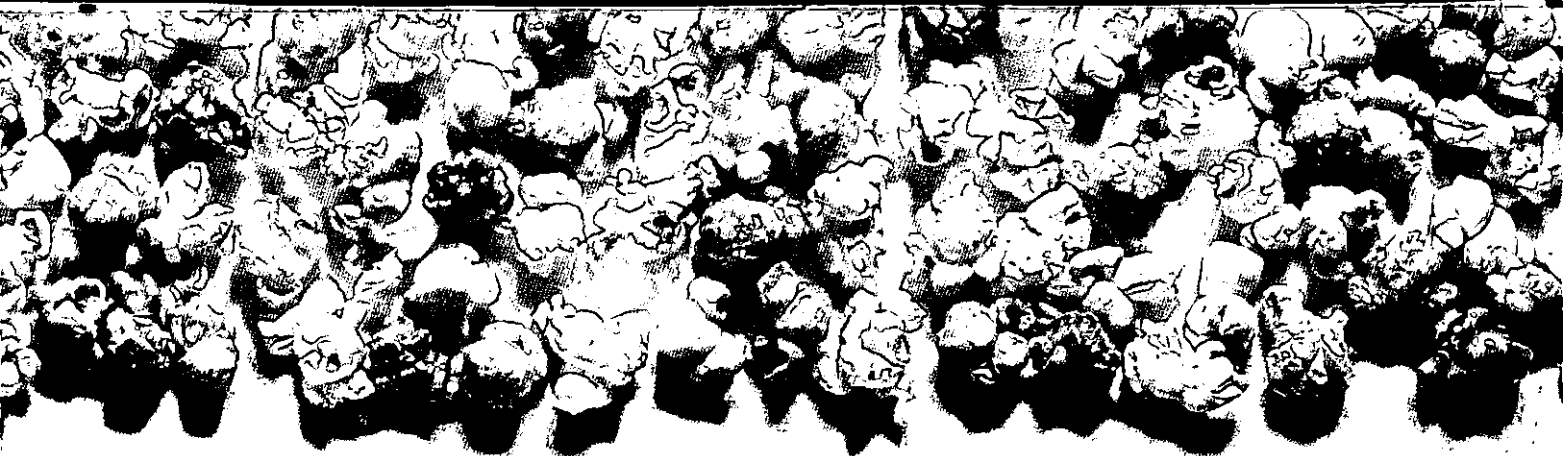
On average, about 8 percent of savory snacks are sold in mass merchandisers and about 4 percent in warehouse clubs, but ready-to-eat

popcorn surpassed both those figures with a 17.7 percent share of pound volume in mass merchandisers and 4.3 percent in warehouse clubs. The price advantage in these outlets is clear: ready-to-eat popcorn costs \$1.86 per pound in mass merchandisers and \$2.04 in warehouse clubs, versus \$3.34 in supermarkets.

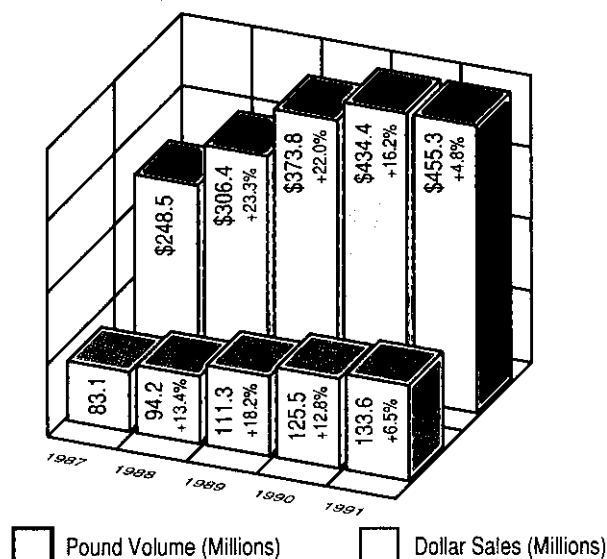
For microwavable popcorn, a whopping 25.0 percent of pound volume moves through mass merchandisers, and 10.7 percent through warehouse clubs. The price break is equally impressive for microwavable popcorn: \$1.66 per pound in mass merchandisers and \$1.59 in warehouse clubs, versus \$2.76 in supermarkets.

Despite its reputation as a low-fat snack, the recession and the maturing of the white Cheddar cheese flavor seem to have taken much of the steam out of the ready-to-eat popcorn business, which had been one of the star performers in recent years. Since white Cheddar cheese popcorn became popular in the mid-to-late 1980s, each major snack company—Frito-Lay, Borden, Eagle, and Keebler—has added the product to its snack line. By 1991, however, the market for this flavor was saturated, not only with these major brands but a variety of smaller companies as well. In addition, white Cheddar popcorn is typically priced as a premium product, which hurts sales during a recession.

Although new flavors such as white Cheddar helped ready-to-eat popcorn grow even faster than microwavable popcorn, even as microwavable popcorn was bursting onto the scene, it may now be feeling the effects of

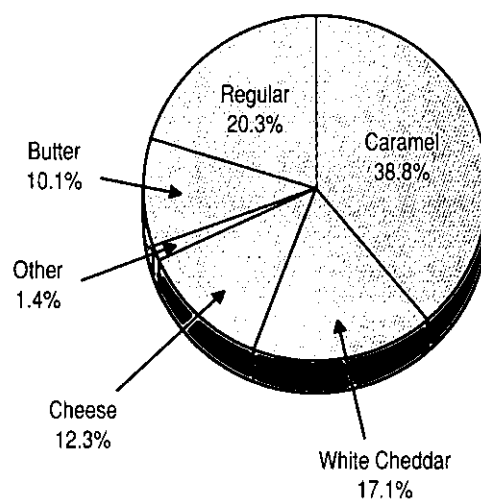


Ready-to-Eat Popcorn Sales



1991 Ready-to-Eat Popcorn Flavors

(Measured in Pound Volume)



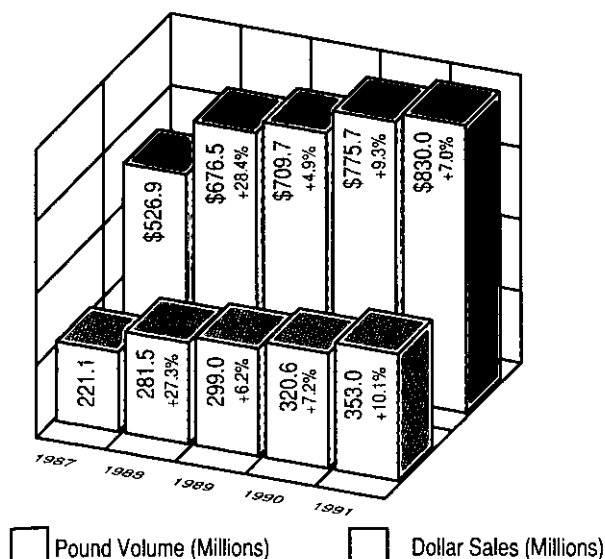
consumer desire for easy-to-prepare hot popcorn. With easy-to-use microwave packages tucked in the pantry for "anytime" consumption, consum-

ers seem to be resisting the impulse to purchase ready-to-eat popcorn.

In fact, pound volume of white Cheddar cheese popcorn declined 11.1

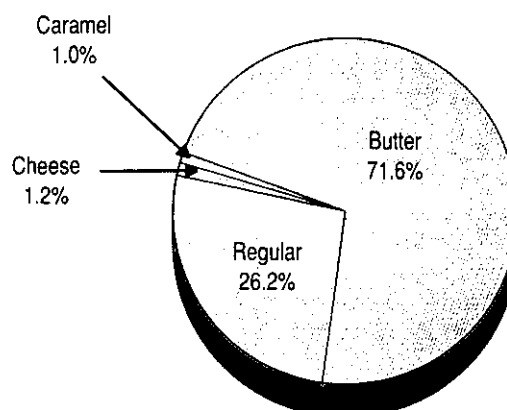
percent in supermarkets last year, a victim of the overall drop in ready-to-eat popcorn in supermarkets. Current pound volume market share fig-

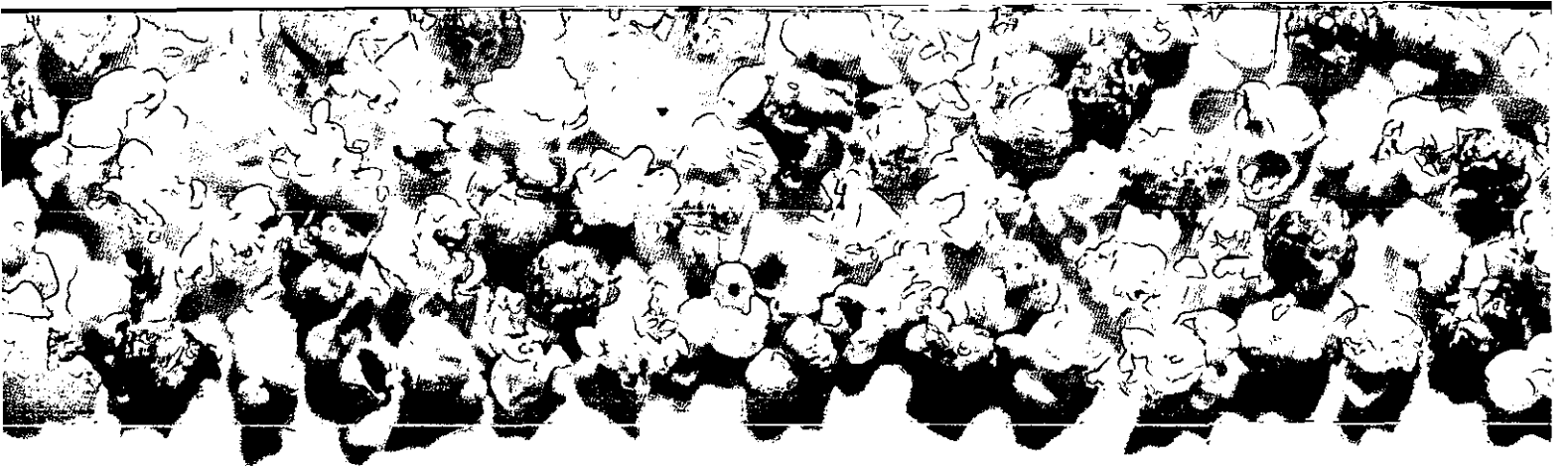
Microwavable Popcorn Sales



1991 Microwavable Popcorn Flavors

(Measured in Pound Volume)





1991 Ready-to-Eat Popcorn Prices

Outlet	Price Per Pound
Supermarkets	\$3.34
Grocery Stores	\$3.34
Mass Merchandisers	\$1.86
Drug Stores	\$2.66
Warehouse Clubs	\$2.04
Convenience Stores	\$4.09

1991 Microwavable Popcorn Prices

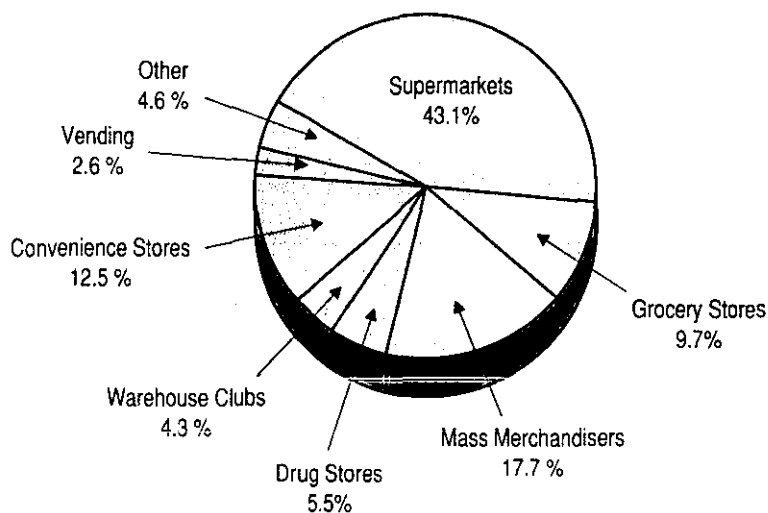
Outlet	Price Per Pound
Supermarkets	\$2.76
Grocery Stores	\$2.68
Mass Merchandisers	\$1.66
Drug Stores	\$2.19
Warehouse Clubs	\$1.59
Convenience Stores	\$3.00

ures show white Cheddar at 17.1 percent, behind perennial flavor favorite caramel (38.8 percent) and regular (20.3 percent). All these flavors suffered volume drops in supermarket sales. The only major flavor to post an increase in supermarket pound volume was butter, which rose an impressive 22.6 percent.

In the microwavable popcorn segment, butter flavor is expanding its dominant position, rising 13.4 percent in pound volume in supermarkets to capture 71.6 percent of the market. Regular is the only other significant flavor at 26.2 percent of pound volume, and it fell 6.4 percent in supermarkets. Caramel and cheese flavors together only account for 2.2 percent of pound volume, and both declined more than 35 percent in

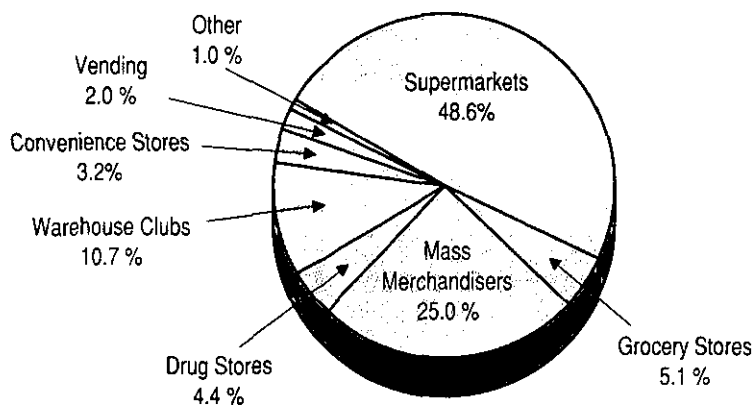
1991 Ready-to-Eat Popcorn Distribution

(Measured in Pound Volume)



1991 Microwavable Popcorn Distribution

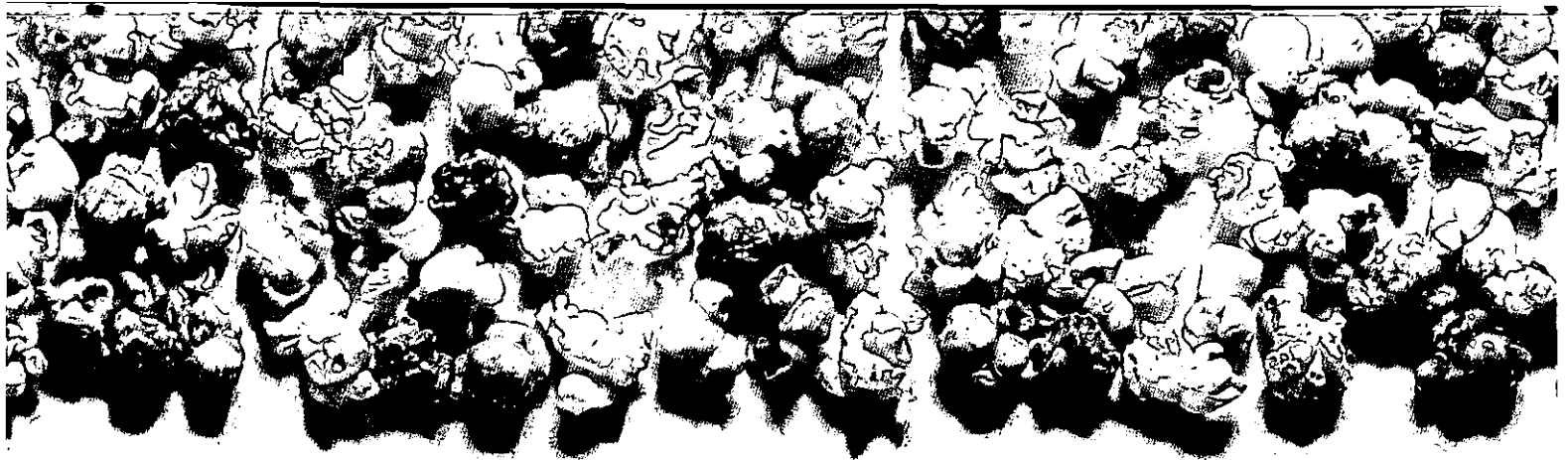
(Measured in Pound Volume)



supermarket sales last year.

Consumers continued to look to both ready-to-eat and microwavable popcorn as low-fat snacks in 1991. In supermarkets, for example, ready-to-eat popcorn labeled as "low-oil" or

"light" showed a 51.3 percent increase in pound volume, even while overall pound volume was off in these stores. These low-oil products comprise 5.3 percent of pound volume for ready-to-eat popcorn. These figures are even



1991 Ready-to-Eat Popcorn Flavors By Region

(All Figures Represent Percentages)

Region	Percent of Ready-to-Eat Popcorn Market	Regular	Caramel	White Cheddar Cheese	Cheese	Butter	A/O Flavors
TOTAL U.S.	100.0	20.3	38.8	17.1	12.3	10.1	1.4
New England	9.4	27.3	20.4	32.5	7.5	12.0	.3
Mid-Atlantic	19.8	30.6	31.9	19.3	7.2	10.8	.2
East Central	13.9	11.4	41.4	13.0	25.5	8.5	.2
Southeast	13.5	12.3	51.6	19.5	6.1	10.1	.4
Southwest	7.4	11.5	64.8	9.6	4.4	5.6	4.1
West Central	20.2	20.5	34.0	11.0	22.5	10.1	1.9
Pacific	15.7	21.4	38.8	18.1	5.8	11.6	4.3

more impressive for microwavable popcorn, where low-oil products command 37.8 percent of pound volume, and rose an impressive 41.4 percent in supermarkets last year.

Similar patterns emerge when looking at salt content. In ready-to-eat popcorn, low-salt products represent 5.6 percent of pound volume, and no-salt is 1.0 percent. Low-salt varieties are growing, posting a 9.8 percent pound volume increase in supermarkets while both no-salt (-2.3%) and regular (-5.7%) varieties fell. For microwavable popcorn, 20.9 percent of pound volume is low-salt and 2.3 percent is no-salt. Consumers are rapidly moving to low-salt versions as a preferred alternative to no-salt. In supermarkets, low-salt varieties grew 25.0 percent last year while no-salt dropped 25.8 percent.

Regionally, several interesting trends emerged last year in the ready-to-eat popcorn segment. Caramel flavor is preferred by consumers in the Southeast and Southwest regions, while white Cheddar cheese remained the favorite by a substantial margin in New England. Regular fla-

vor was popular in New England and the Mid-Atlantic regions, and consumers in the East Central and West Central regions ate much more cheese-flavored popcorn than people in other regions.

Several companies introduced "light" popcorn products in 1991, including Charles Chips, Frito-Lay (Smartfoods), and the Boston Popcorn Company, which rolled out a "lite" caramel popcorn. Charles

Chips also accompanied its Light Popcorn product with a new white Cheddar cheese popcorn product. Many of the light versions boast less sodium and less fat. Meanwhile, Hunt-Wesson's Orville Redenbacher's brand is testing a ready-to-eat popcorn line in Milwaukee, Wisconsin; Phoenix, Arizona; and St. Louis, Missouri. The product comes in natural, white Cheddar cheese, caramel, and natural light.



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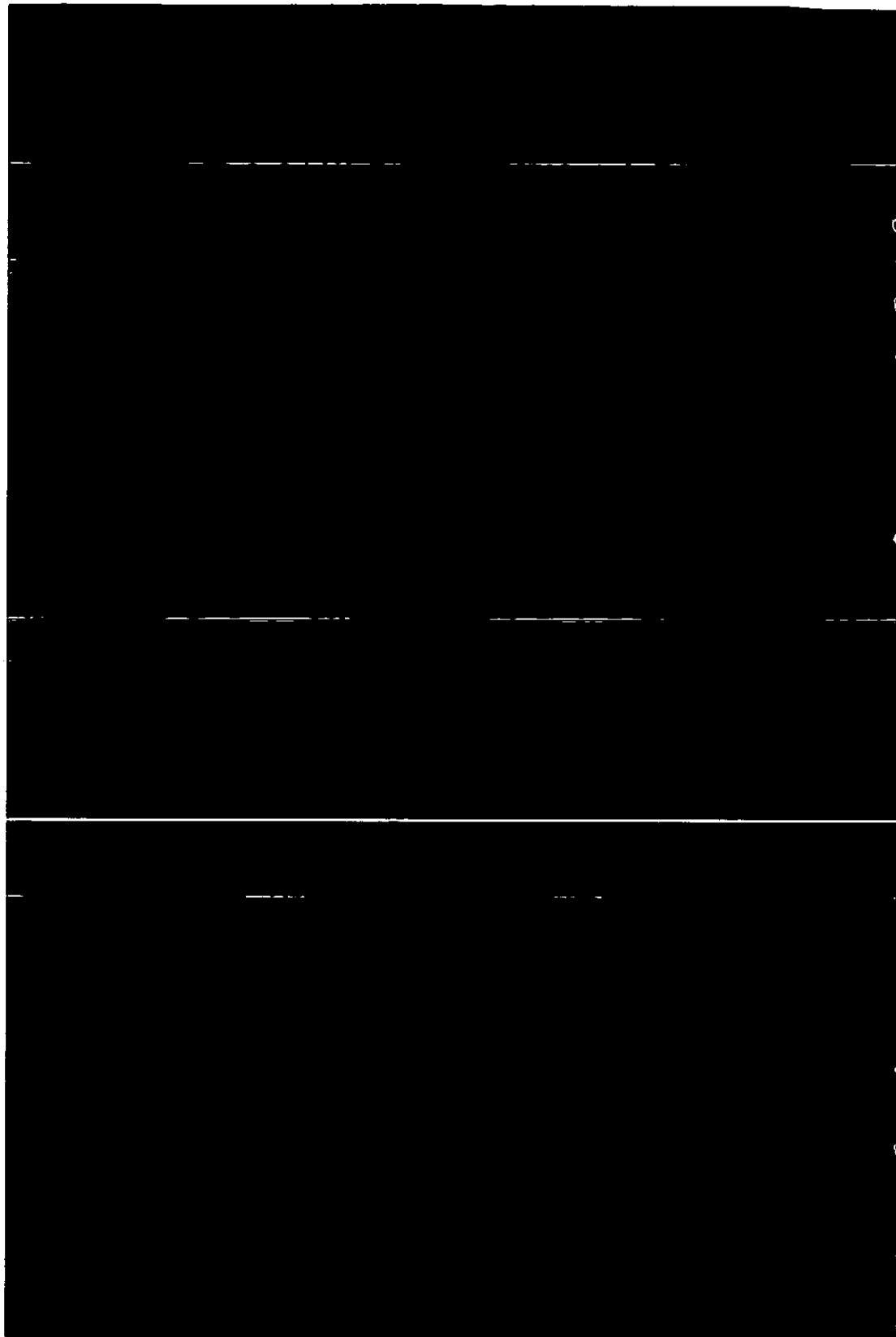
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EXTRUDED SNACKS CLAW AHEAD FOR STRONG GROWTH

1991 Dollar Sales: \$813.0 Million (+8.2 %)
1991 Pound Volume: 273.8 Million (+7.0 %)

In the snack food industry, excitement and fun generate successful products. Perhaps that's why an aggressive promotion of Frito-Lay's Cheetos brand cheese-flavored snacks in the shape of a paw helped propel the extruded snack segment up by 7 percent in pound volume and 8.2 percent in dollar sales. According to Frito-Lay, the paw-shaped snacks (featuring brand mascot Chester Cheetah on the package) are designed to appeal to what it identifies as "a new generation of snacker." These 10- to 20-year-olds are an age group the company anticipates will grow twice as fast as the overall population in coming years.

Ralston Purina Company of St. Louis, Missouri, inspired by the popu-

lar Teenage Mutant Ninja Turtles, introduced Teenage Mutant Ninja Turtles Pizza Crunchabungas, a cornmeal-based puffed snack with pizza flavoring. Ralston Purina says the snack is designed to leverage the success of the Ninja Turtles movie and cartoon characters and combine that with the extremely high appeal of pizza taste among children.

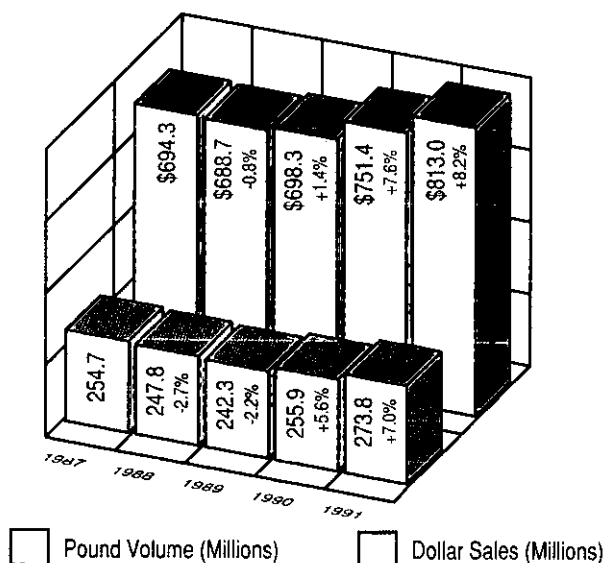
Retail sales of extruded snacks reached \$813 million in 1991. Frito-Lay says that the "paws" version of Cheetos produced \$80 million in retail sales, while the overall Cheetos line of extruded snacks was up 22 percent.

Another factor in the growth was substantially higher sales of Cheez Doodles, marketed in the East by Wise

Foods, a division of the Borden Snacks and International Consumer Products Division. Aggressive promotions positioned Cheez Doodles as the number-one extruded snack in the East, from Maine to Florida, a Borden executive reports. Borden also introduced Doodle O's cheese-flavored corn puffs.

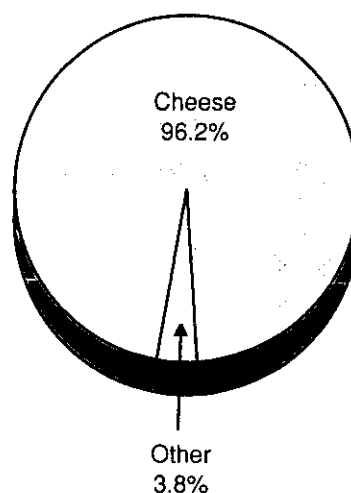
Extruded snacks rank slightly below the industry average in sales through supermarkets (43.0 percent of pound volume versus an industry average of 47.7 percent). A relatively high percentage of sales move through convenience stores and mass merchandisers. These non-supermarket outlets were a key to the growth of extruded snacks this year, since supermarket-only growth figures

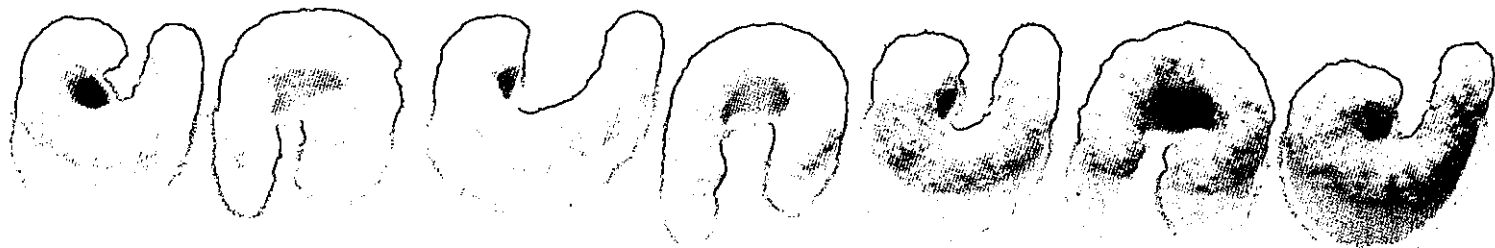
Extruded Snack Sales



1991 Extruded Snack Flavors

(Measured in Pound Volume)





1991 Extruded Snack Prices

Outlet	Price Per Pound
Supermarkets	\$2.66
Grocery Stores	\$2.69
Mass Merchandisers	\$2.58
Drug Stores	\$2.77
Warehouse Clubs	\$2.44
Convenience Stores	\$3.55

show a slight 1.3 percent increase in dollar sales and 0.7 percent growth in pound volume, while the overall segment growth was much higher.

Although extruded snacks have carved out substantial niches in these alternative outlets, the average price-per-pound varies only slightly, with the exception of convenience stores.

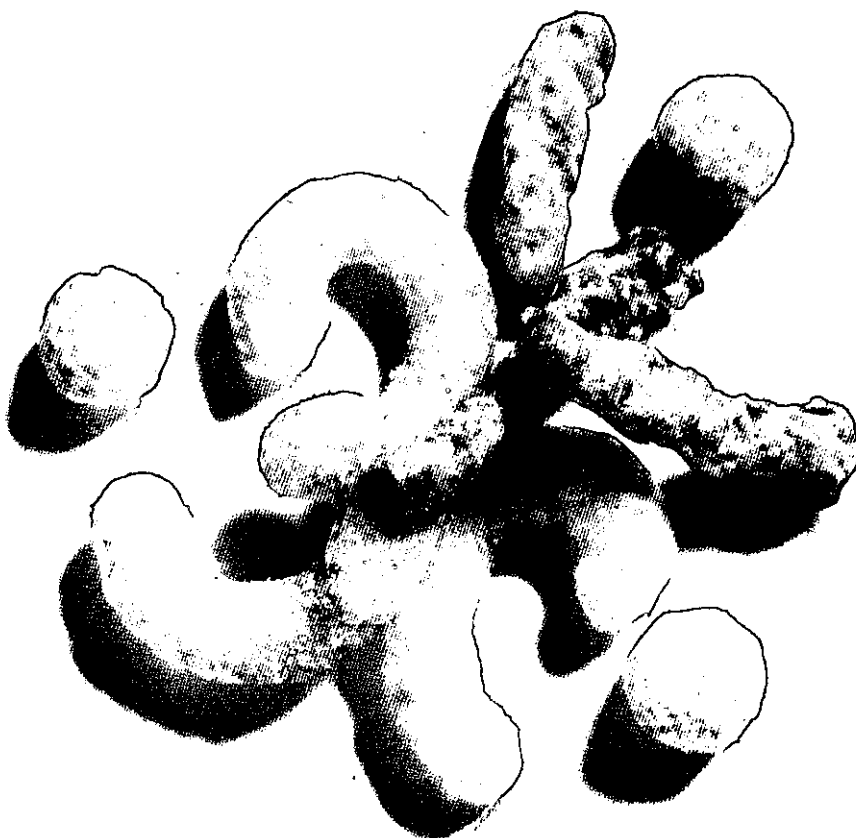
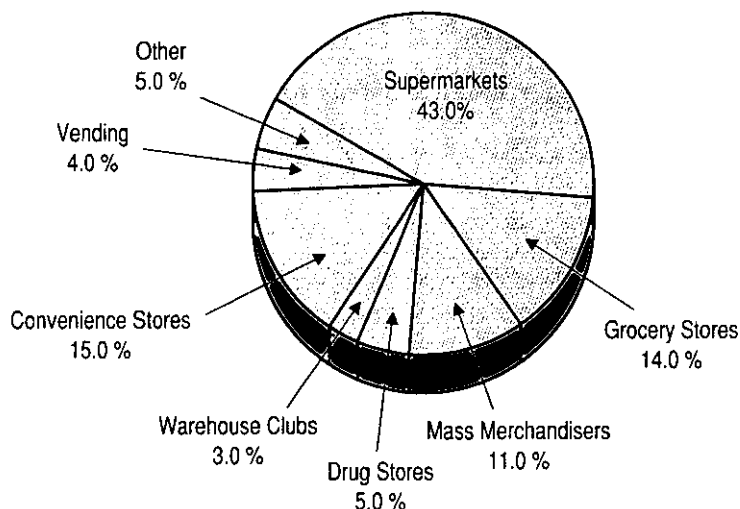
The vast majority of the extruded snack segment is made up of cheese-flavored snacks, but some new flavors of extruded snacks were introduced last year, including Mrs. Weaver's Puffcorn from the Weaver Potato Chip Company, Lincoln Nebraska. The extruded corn snack, available in butter and white Cheddar cheese flavors, features a light, popcorn taste without the hard bite of popcorn.

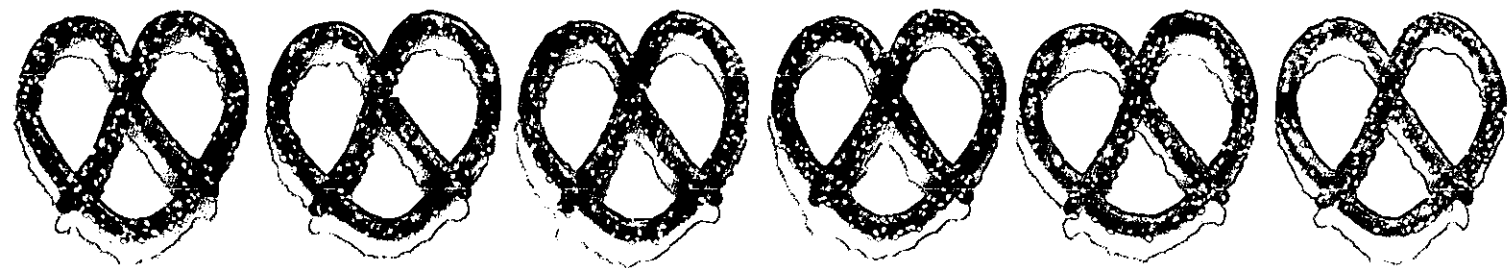
In addition, Skinny Snacks, Inc., based in Miami, Florida, introduced Skinny Natural Corn Chips made using unique extrusion technology developed in Brazil. The distinctive ultra-crisp chips, which are shaped like a rounded thimble, are available in Nacho cheese, barbecue, sour cream and onion, original, and no-salt varieties.

Charles Chips, Inc., Lancaster, Pennsylvania, added a twist to cheese-flavored extruded snacks, introducing white Cheddar cheese twists. Additionally, the company's Morning Munchies, an innovative wheat-based extruded snack, was created as a breakfast snack. The product is available in cinnamon toast and maple flavors.

1991 Extruded Snack Distribution

(Measured in Pound Volume)





PRETZELS RIDE NUTRITION WAVE TO NEW HEIGHTS

1991 Dollar Sales: \$764.4 Million (+25.6 %)
1991 Pound Volume: 414.7 Million (+18.5 %)

While it pales in size compared to potato chips and tortilla chips, the pretzel segment was the envy of the industry in 1991, posting robust growth figures in both dollar sales and pound volume.

Fueled by a number of factors, pretzels skyrocketed 25.6 percent in dollar sales and 18.5 percent in pound volume. It was one of only a few segments in which dollar sales grew more than pound volume. The pretzel segment was also the only segment to enjoy supermarket growth figures that closely matched all-outlet growth; dollar sales grew 25.9 percent and pound volume was up 17.1 percent in supermarkets.

Pretzel sales have grown at a healthy clip for three years following a long period of stagnant growth, but

1991 pound volume growth tripled that of 1990 and dollar sales growth more than doubled the 1990 level.

Pretzel manufacturers list a number of reasons for the solid performance, not the least of which is Frito-Lay's recent attention to the category. The Dallas, Texas, snack giant is spending freely in support of its Rold Gold brand.

A second factor often mentioned is nutrition. Pretzels are a low-fat snack, and that fact has not been lost on a growing number of consumers.

The recession also played a key role. People stayed home more and took advantage of traditionally low pretzel prices, which were one-third lower than the average snack (\$1.84 per pound versus \$2.73). This low price was available in supermarkets,

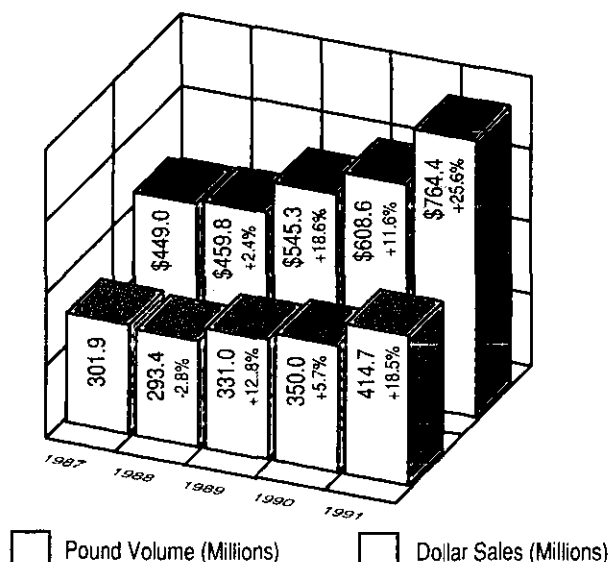
while mass merchandisers, drug stores, and warehouse clubs cut the price even further—down to \$1.13 per pound in warehouse clubs.

Finally, America's mobile society is helping to boost pretzel sales in areas of the country that have not been traditionally good markets for pretzels. Population shifts from the Mid-Atlantic and East Central regions to the Southeast and Southwest are helping create a new generation of pretzel snackers in those areas.

The recent growth of the segment has sent manufacturers scurrying for more capacity, while the sale of pretzel ovens has become a brisk business.

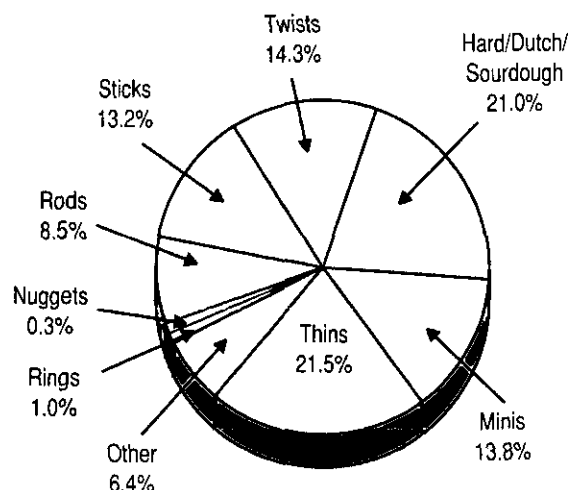
"Everyone wants to get on the bandwagon," says Michael Siegel, president of Anderson Bakery Company,

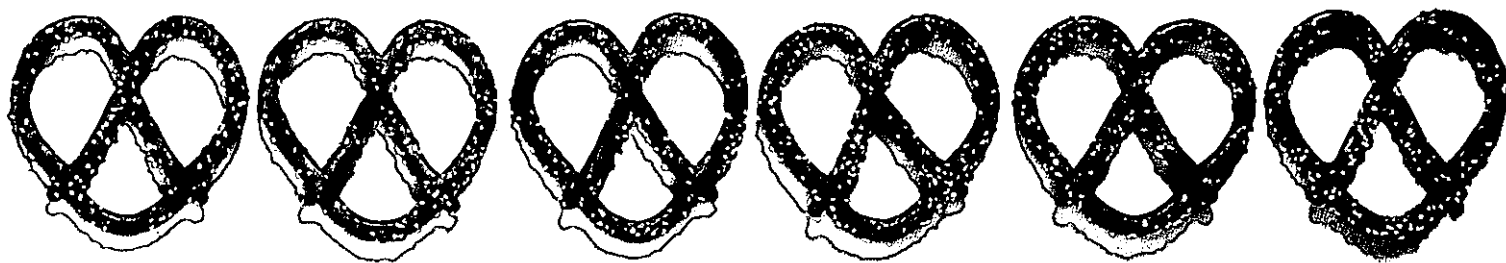
Pretzel Sales



1991 Pretzel Types

(Measured in Pound Volume)



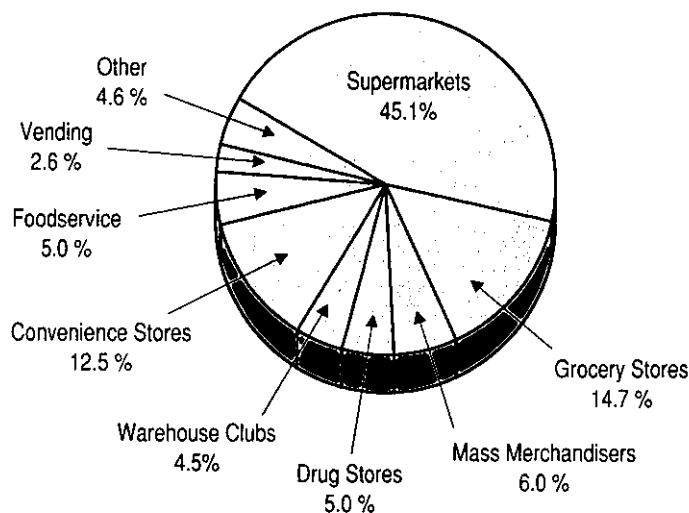


1991 Pretzel Prices

Outlet	Price Per Pound
Supermarkets	\$1.83
Grocery Stores	\$1.85
Mass Merchandisers	\$1.47
Drug Stores	\$1.38
Warehouse Clubs	\$1.13
Convenience Stores	\$2.11

1991 Pretzel Distribution

(Measured in Pound Volume)



Inc., of Lancaster, Pennsylvania, one of the country's largest pretzel bakers. Siegel says the industry has been operating at about 90 percent of capacity to meet consumer demands.

In addition to the low-fat appeal of pretzels, many consumers also choose low-salt and no-salt varieties. Low-salt pretzels comprise 4.6 of pound volume, and are growing quickly—up 66.5 percent in supermarkets last year. No-salt pretzels are 5.0 percent of pound volume, and grew 18.8 percent in supermarkets.

Keebler, which has been marketing a line of butter-flavored pretzels, is restaging its line to include traditional Bavarian-style pretzels and knots. Borden, which has been using its Seyfert facility as the linchpin for its pretzel sales, acquired Quinlan Pretzel Company of Denver, Pennsylvania, to provide additional capacity.

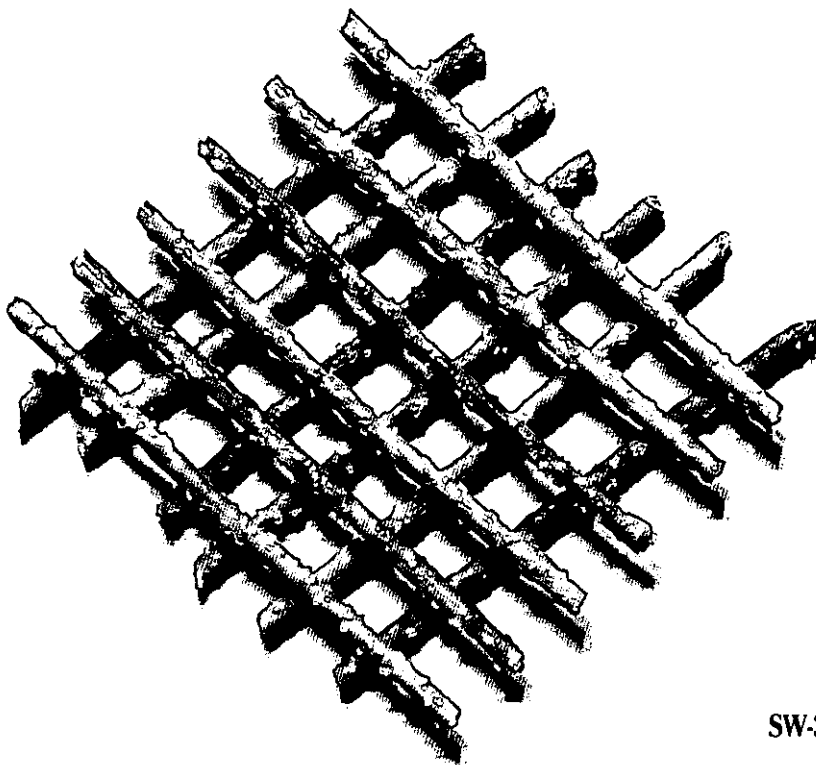
Rice Bran Pretzel Stix from Benzel's Bretzel Bakery, Inc., Altoona, Pennsylvania, was another new pretzel

product rolled out in 1991. It is marketed as having no cholesterol, no sugar, low fat content, and few calories—only 113 per 1-ounce serving.

Innkeeper's Choice, a line of premium, all-natural pretzels from Snyder of Berlin, Berlin, Pennsylvania, is a new upscale line of pretzels that includes minis, rods, stix, and

thins.

Fat-free Mister Salty pretzel twists and sticks from Nabisco Brands were introduced to capitalize on the health benefits and renewed popularity of pretzels. A 1-ounce serving of the Fat-free Mister Salty Pretzels, which are baked without any oils or shortening, has 100 calories.





POOR PEANUT CROP DAMAGES FORTUNES OF SNACK NUTS

1991 Dollar Sales: \$1.341 Billion (+2.8 %)

1991 Pound Volume: 389.0 Million (-3.6 %)

A poor peanut crop in the fall of 1990 was reflected in the overall performance of the snack nut segment last year, since peanuts represent 67.2 percent of snack nut pound volume. The segment produced a modest increase in dollar sales for the first time in recent years, but pound volume continued the steady decline that has been shrinking the nut segment for several years.

The 1990 drought played havoc with supplies and prices through almost three quarters of 1991. Because of weakened supply, brokers couldn't fill contracts and processors were

forced to go into the open market, paying dearly.

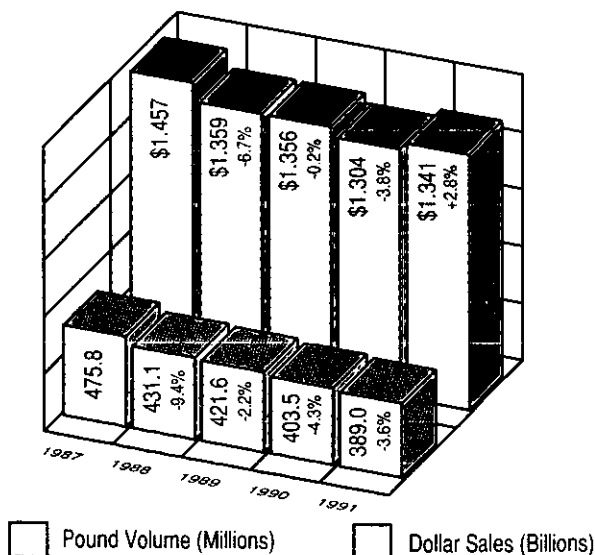
G. Michael Dillon, chairman, president and chief executive officer of Tom's Foods, Columbus, Georgia, says that at times raw material prices rocketed to 50 percent above normal pricing. Processors were forced to slightly adjust package weights to offset increases, which was reflected in the dollar-to-pound volume ratio. The average price-per-pound in the nut segment was \$3.45 in 1991, compared to \$3.23 in 1990. In the meantime, the 1991 peanut crop was excellent and prices have returned to nor-

mal, according to industry sources.

Supermarkets continue to be the major outlet for snack nuts, with 46.4 percent of pound volume. Mass merchandisers have emerged as the second-largest outlet with 15.9 percent, drug stores accounted for 9.3 percent, and the fast-growing warehouse clubs captured 4.8 percent of snack nut pound volume.

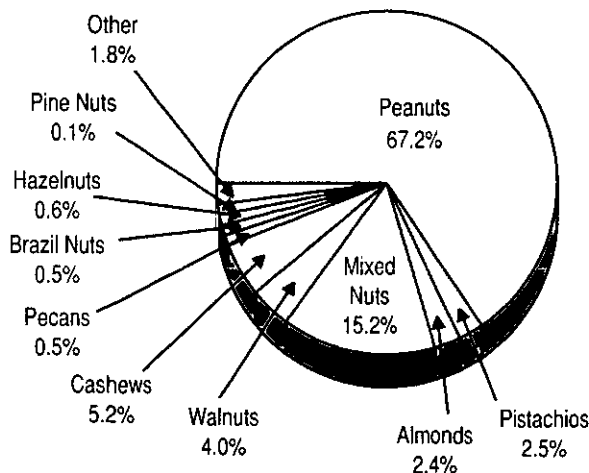
Unlike most other snack segments, the average price per pound of snack nuts was higher in mass merchandisers than in supermarkets and grocery stores. Consumers paid an average of \$3.44 per pound in mass mar-

Snack Nut Sales



1991 Snack Nut Types

(Measured in Pound Volume)





1991 Snack Nut Prices

Outlet	Price Per Pound
Supermarkets	\$3.30
Grocery Stores	\$3.04
Mass Merchandisers	\$3.44
Drug Stores	\$3.24
Warehouse Clubs	\$2.54
Convenience Stores	\$5.09

ket retailers compared with \$3.30 in supermarkets, \$3.24 in drug stores, and \$3.04 in grocery stores. This may reflect the fact that nuts have traditionally had a place in mass merchandise stores in relatively small package sizes, while large packs of other snacks have been added more recently at lower per-pound prices designed to build volume for the new offerings. Warehouse club stores, which specialize in larger packages, offered the lowest price, \$2.54 per pound.

Evidence exists that nut volume is moving away from supermarkets into other outlets, since supermarket sales figures showed a 7.0 percent drop in pound volume and only a 0.1 percent increase in dollar sales, much less than overall nut segment performance.

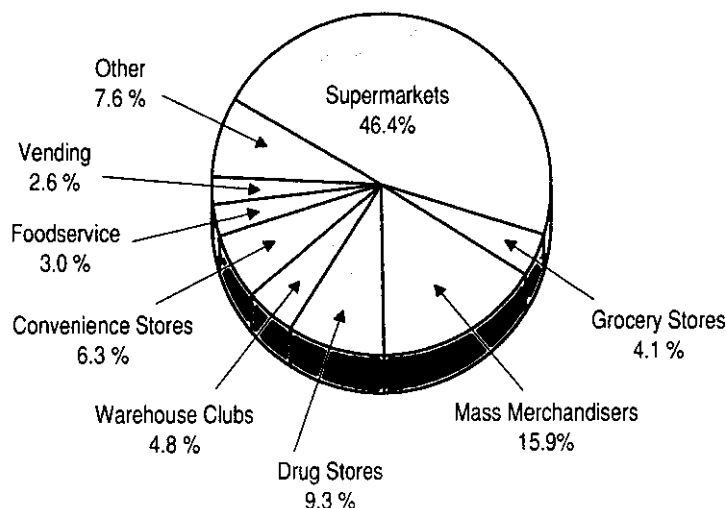
Peanuts, cashews, almonds, and pistachios all suffered significant declines in pound volume in supermarkets, but mixed nuts did manage a 2.6 percent increase. The Planters Division of RJR Nabisco, the leader in the nut segment, rolled out a new line of Select Mix mixed nuts in 1990.

Some of the smaller segments in snacknuts—walnuts, Brazil nuts, and hazelnuts—posted modest pound volume increases in supermarkets last year.

Within the peanut segment, the dry-

1991 Snack Nut Distribution

(Measured in Pound Volume)



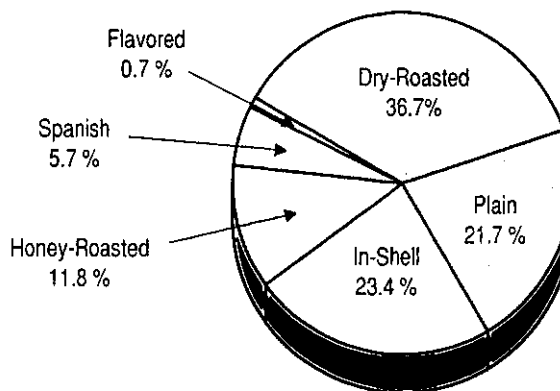
roasted variety fell 11.6 percent in pound volume in supermarkets, but remains the leading peanut type. Plain peanuts suffered the least, dropping

only 2.9 percent in supermarket pound volume last year.

Planters, based in Winston-Salem, North Carolina, rolled out Munch 'N

1991 Peanut Types

(Measured in Pound Volume)



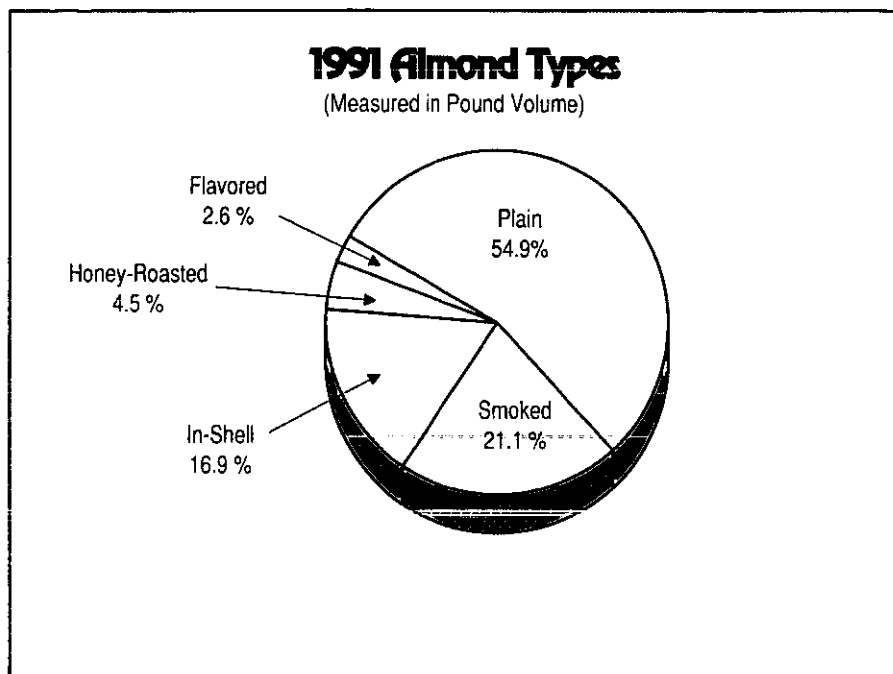


Go packs, the first national single-serving nut product sold in multipacks of nine-pack salted nuts, nine-pack variety peanuts, and nine-pack honey-roasted peanuts. The snacks are designed for consumption on-the-go, and shows the famous Mr. Peanut trademark in a non-traditional way: active and on-the-go.

Borden Snacks and International Consumer Products Division had a similar idea with its Snack Time! 15-item line of single-serving snacks, including jumbo salted peanuts, Spanish peanuts, and cashews.

In the almond segment, the leading plain variety fell only 3.6 percent in supermarket pound volume, the smallest drop among almond varieties. The sole standout was flavored almonds, which shot up 82.4 percent in supermarkets. Blue Diamond Growers, Sacramento, California, a leading almond producer, rolled out a selection of flavors of its popular nut products, including Toasted/No-Salt, Lightly Salted, and Sour Cream & Onion almonds.

In pistachios, the red variety, which represented 24 percent of pound volume (the remainder is regular), dropped 6.9 percent in supermarket pound volume last year while the regular variety fell only 3.5 percent.



RECESSION, HIGH PRICES HURT MEAT SNACKS

1991 Dollar Sales: \$461.4 Million (-5.5 %)
1991 Pound Volume: 36.3 Million (-6.5 %)

The meat snack segment, which relies on convenience stores for 41.0 percent of its pound volume, suffered from recessionary pressures, store-closings in the C-store industry, and record meat prices last year, resulting in a 5.5 percent drop in dollar sales and 6.5 percent decrease in pound volume.

GoodMark Foods, Inc., Raleigh, North Carolina, the industry's leading manufacturer, enjoyed a modest sales increase due in part to a full year's performance from Acme Foods, a meat snack company GoodMark acquired in October 1990, plus in-

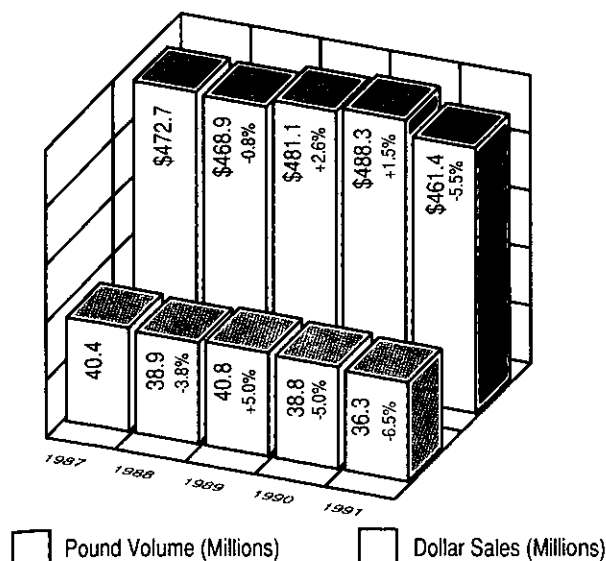
creased international sales. Ron Doggett, chairman and chief executive officer of GoodMark, described 1991 as a very difficult year because of various economic issues, not the least of which was the recession.

Curtice Burns Meat Snacks Group, Denver, Colorado, which dominates canister sales of meat snacks in supermarkets, reported pound volume and dollar sales off 15 percent in supermarkets, largely because of a shift to single-serve purchases of natural jerky and consumer resistance to higher price points brought on by higher meat prices.

Large Curtice Burns canister units, sold under the Lowrey's and Smokecraft label, contain chopped and formed jerky. "The consumer shift to natural beef sold in individual servings did not offset the loss of canister volume," according to John Porter, president of the group, although he adds that sales of Curtice Burns natural beef jerky volume doubled during the past year.

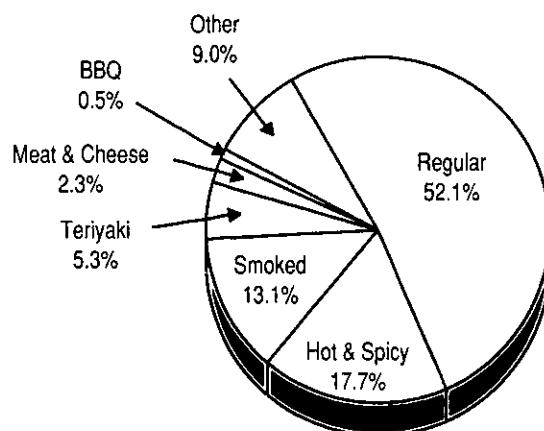
Supermarkets, which represent only 10.0 percent of pound volume, showed a dollar sales and pound volume decreases of more than 10 percent in 1991. The "other" segment of

Meat Snack Sales



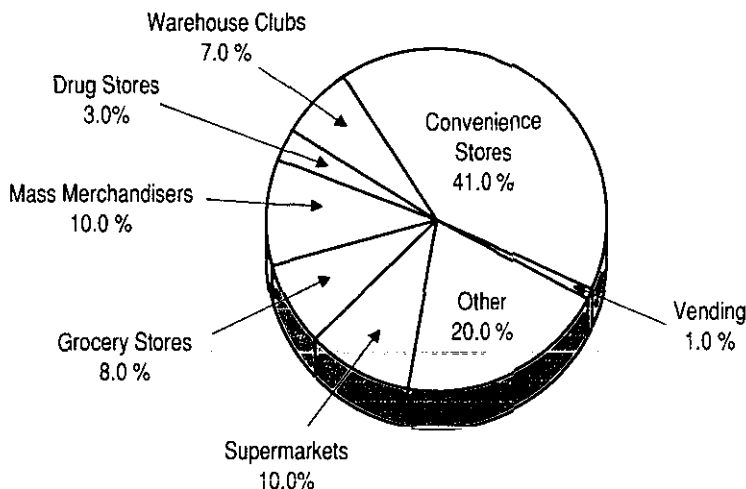
1991 Meat Snack Flavors

(Measured in Pound Volume)



1991 Meat Snack Distribution

(Measured in Pound Volume)



the distribution pie (representing military stores, bars, truckstops, and other small outlets) accounts for 20.0 percent of meat snack pound volume.

Warehouse club stores represent 7.0 percent of pound volume, but some meat snack manufacturers report about half the product sold by warehouse clubs is purchased by C-stores, which may push C-store volume closer to 50 percent of total pound volume. Given the extremely low average per-pound price of \$8.58 in warehouse clubs, it's not surprising that C-store managers would take advantage of the 42 percent margin to be gained by reselling meat snacks at the average C-store price of \$14.75 per pound.

Sales through military commissaries, which boomed in early 1991 because of the Gulf War, dropped drastically when the troops came home. With many military bases slated for closing in coming years, that segment of the business has an uncertain future.

In supermarkets, most flavors of meat snacks fell in pound volume last year, with the exception of teriyaki, which soared 48.8 percent. Smoked and hot and spicy varieties dropped only 2.6 percent and 5.6 percent, respectively, in supermarket pound volume.

Despite the difficult year, meat snack manufacturers continued to introduce new products. The Knauss Snack Food Company of Timonium, Maryland, introduced its line of Bull and Hannah's meat snacks. The company is a joint venture recently formed with E.W. Knauss & Son, Inc., a successful meat processing company. The Bull brand includes a variety of meat snacks, including a spicy beef stick, spicy snack stick, beef jerky, and deli stick. The Hannah brand includes a variety of sizes and spice levels of red hot sausage.

Knauss Meat Snack Company is also manufacturing a private label line of meat snacks for Herr Foods for roll-out this year and is working on a distribution agreement with Weaver

1991 Meat Snack Prices

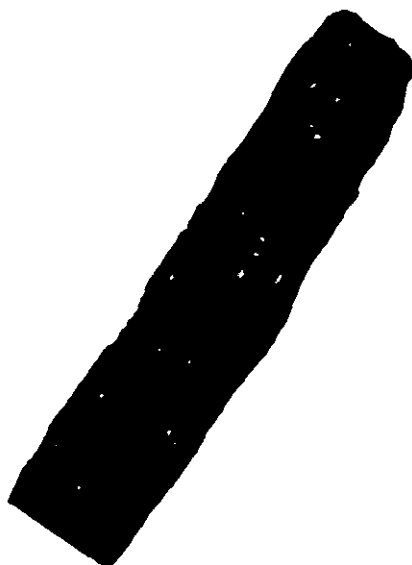
Outlet	Price Per Pound
Supermarkets	\$11.59
Grocery Stores	\$11.76
Mass Merchandisers	\$11.24
Drug Stores	\$11.52
Warehouse Clubs	\$8.58
Convenience Stores	\$14.75

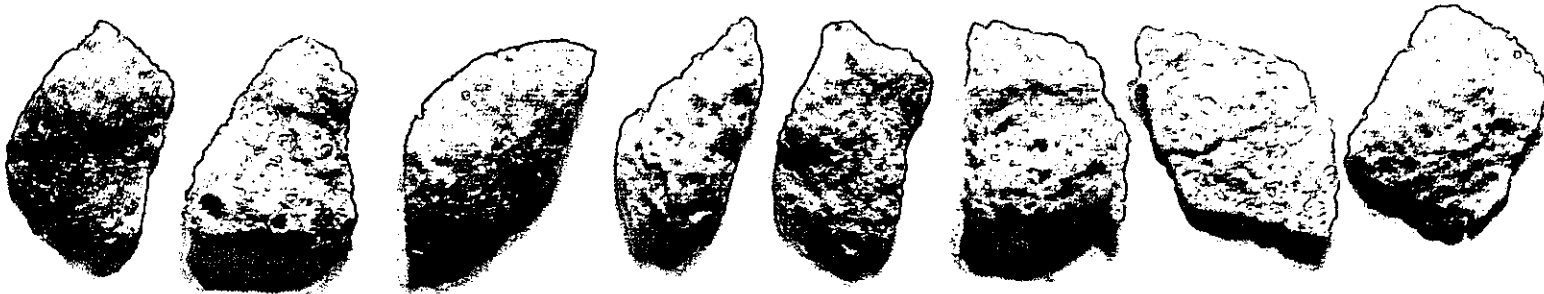
Potato Chip Company.

Curtice Burns Meat Snacks Group rolled out a new line of Bighorn meat sticks and Beef 'n Chicken jerky in a variety of sizes and flavors.

The Bellevue, Nebraska-based O'Brien & Company, Inc., introduced Hot-n-Spicy Sausage, an all-beef hickory-smoked product.

GoodMark Foods' new entry was a repackaged, reformulated Pemmican brand beef jerky line and a smoked turkey breast meat snack made from thick premium cuts of turkey breast tenderloin.





PORK RIND SALES WERE "CRACKLIN" IN '91

1991 Dollar Sales: \$225.7 Million (+3.0 %)
1991 Pound Volume: 41.0 Million (+3.2 %)



The pork rind segment experienced a mixed year in 1991. Supermarket sales were off 5.0 percent in dollar sales and 8.1 percent in pound volume. However, since supermarkets only represent 19.7 percent of total pound volume, sales in other outlets more than made up the difference, pushing the segment to a 3.0 percent gain in dollar sales and a 3.2 percent increase in pound volume.

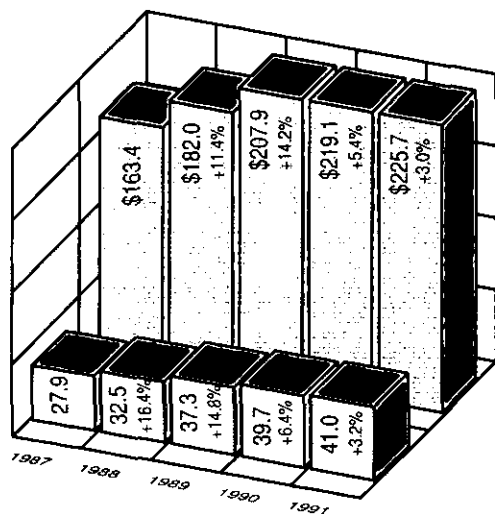
Adding to the good news was a tremendous surge in sales of pork cracklins reported by Rudolph Foods Company and Evans Food Products Company, the two industry leaders that control an estimated 70 percent of the pork rind business.

Cracklins are a form of pork rind processed differently to produce a denser, crunchier pork rind with a stronger bacon flavor, and they have become a hit with consumers.

"The roof is going off that category," says Richard M. Rudolph, vice president of marketing for Rudolph Foods Company, Inc., of Lima, Ohio, the country's largest pork rind producer. He claims his company's cracklin sales were up 17 percent.

Peter Sheehan, executive vice president of Evans Food Products Company of Chicago, Illinois, the second-largest supplier of pork rinds, also reports cracklin sales were up dramatically.

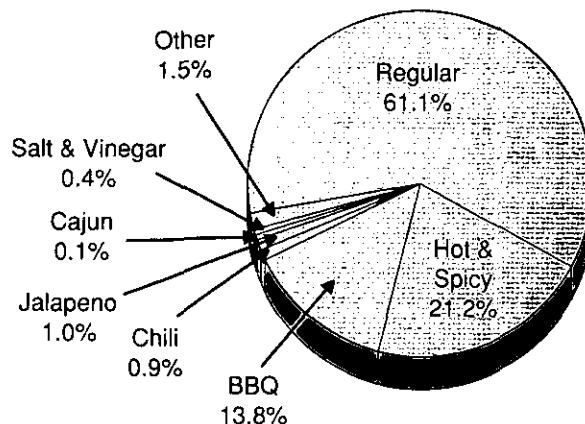
Pork Rind Sales

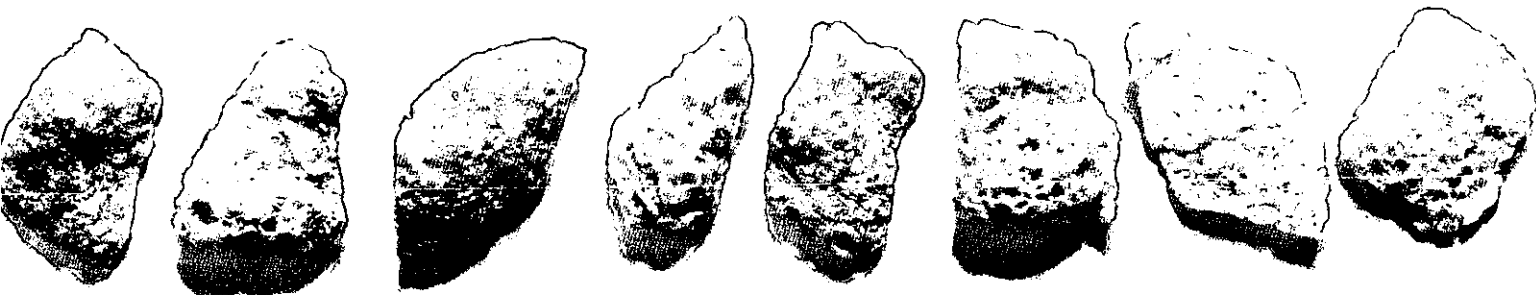


□ Pound Volume (Millions) □ Dollar Sales (Millions)

1991 Pork Rind Flavors

(Measured in Pound Volume)





1991 Pork Rind Prices	
Outlet	Price Per Pound
Supermarkets	\$5.53
Grocery Stores	\$5.30
Mass Merchandisers	\$3.60
Drug Stores	\$4.84
Warehouse Clubs	\$3.30
Convenience Stores	\$6.37

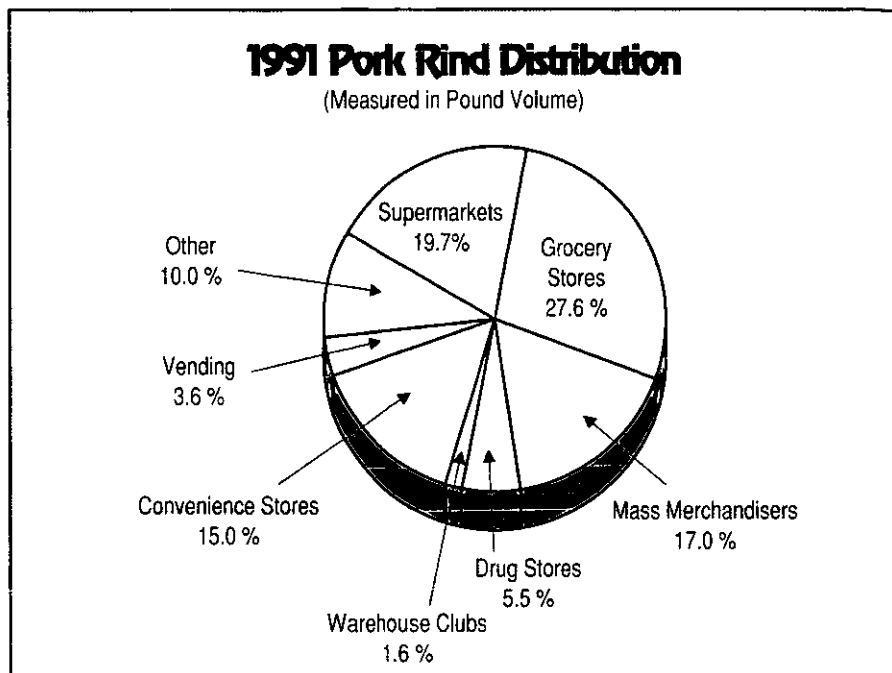
Both companies supply both packaged pork rinds (already "popped") and pellets (unpopped) to other snack companies. Each also carries its own line of retail products.

Rudolph comments that his company's total pellet and packaged product business was up 7 percent in both pound volume and dollar sales. Packaged product grew 5 percent in pound volume and dollars, while pellet sales increased 8 percent in pound volume and 9.5 percent in dollars.

Sheehan says sales of packaged products at Evans was up 1.5 percent in pound volume and 4 percent in dollar sales. Pellet sales edged up 2 percent in pound volume and 4 percent in dollars at Evans.

The fastest-growing market for pork rinds was mass merchandisers, which represent 17.0 percent of pound volume. Warehouse club stores are beginning to carry more pork rinds, but only accounted for 1.6 percent of pound volume last year.

Grocery stores continue to be the most important outlets for pork rinds at 27.6 percent of pound volume. Convenience stores account for 15.0 percent, and "other" outlets, including military stores, bars, truckstops, liquor stores, and other small outlets represent 10.0 percent of pound volume.



WAREHOUSE CLUBS BOOST PARTY MIX, VARIETY PACKS

PARTY MIX

1991 Dollar Sales: \$243.8 Million (+36.1 %)

1991 Pound Volume: 75.9 Million (+39.3 %)

VARIETY PACKS

1991 Dollar Sales: \$214.2 Million (+1.0 %)

1991 Pound Volume: 53.7 Million (+6.0 %)

Party mix and variety packs are two segments that have reaped the benefits of the rapid rise in warehouse club stores.

Party mix, already an extremely popular product posting dollar sales and pound volume gains of more than 36 percent, has 17 percent of pound volume moving through warehouse clubs, plus another 11.5 percent going through mass merchandisers.

As the name implies, party mix is a natural for large packages sold for consumption by large groups of people—just the type of pack that's perfect for warehouse clubs. Moreover, the price is right; party mix sells for an average price of \$2.16 per pound in warehouse clubs, far below the average per-pound price of \$3.21.

However, party mix isn't popular only in these outlets. Nearly 43 percent is still sold in supermarkets, where growth was somewhat less but still impressive—up 22.9 percent in dollar sales and 22.3 percent in pound volume.

Frito-Lay jumped into the party mix segment in 1991 with its new Rold Gold brand snack mix, which was test-marketed in 8-ounce packages in supermarkets last year. It was rolled out nationally in that size, plus 1.5-ounce vend packs and 48-ounce club-size packs, in February of this year. The snack mix includes seasoned pretzels, rye crisps, and bread sticks.

Variety packs—still sold primarily through supermarkets—have moved smartly into warehouse clubs as well, already posting an 18.8 percent share of pound volume in club stores.

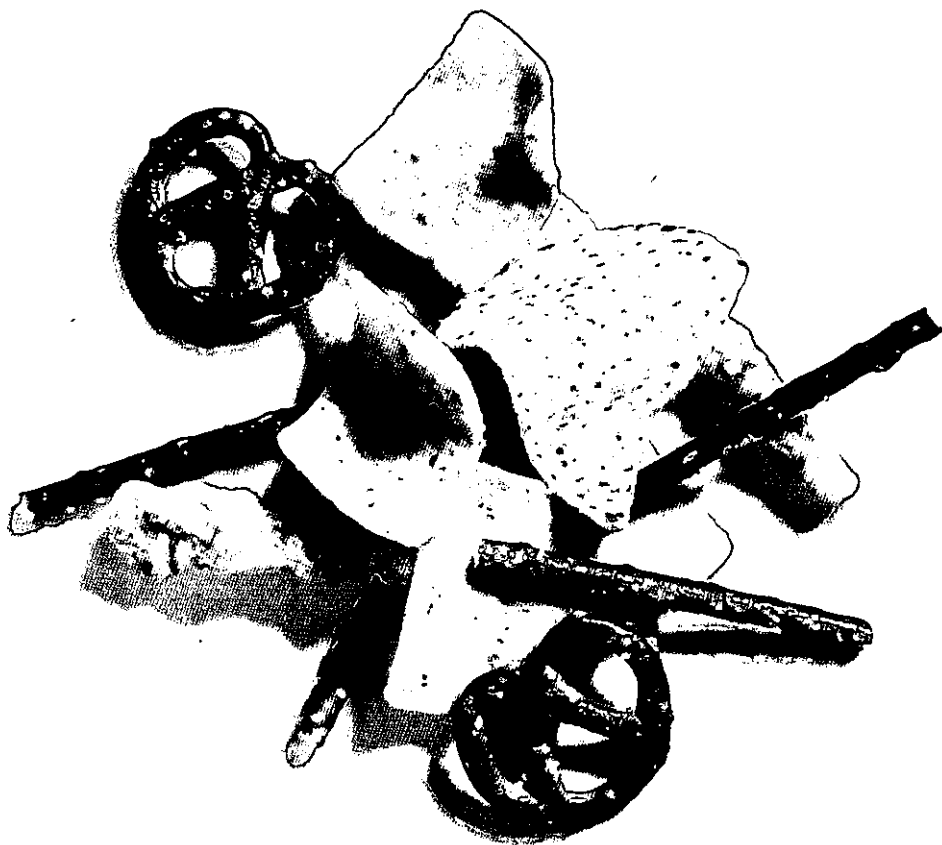
The pound volume increase of 6.0 percent for variety packs, compared

with a 1.0 percent increase in dollar sales, shows the effect of lower warehouse club prices on segment growth figures. The average price per pound of variety packs in warehouse clubs is \$2.96, again far below the average per-pound price of \$3.99.

For variety packs, supermarket-only figures show a 3.4 percent drop in dollar sales and a 3.1 percent decline in pound volume, an indication

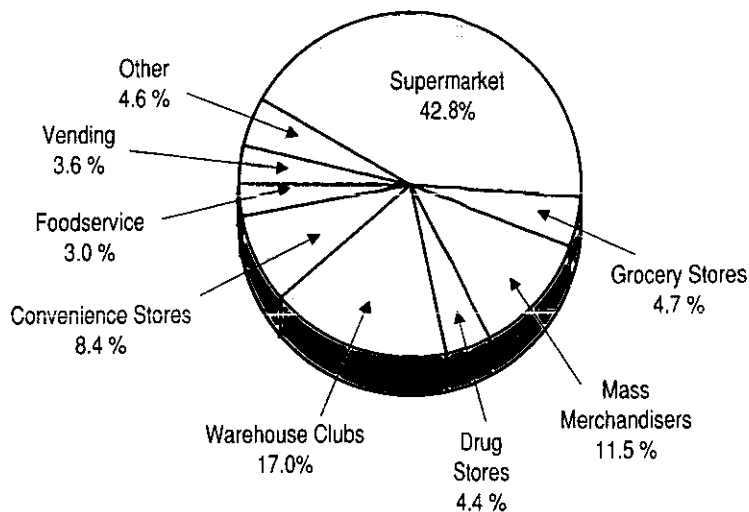
that warehouse clubs are capturing an increasingly large portion of sales.

Based on additional information received this year about these two categories, SFA has revised the 1990 dollar sales and pound volume figures for party mix and variety packs (see chart on page SW-40). These figures coincide with the percent change figures for 1991 shown at the beginning of this section.



1991 Party Mix Distribution

(Measured in Pound Volume)

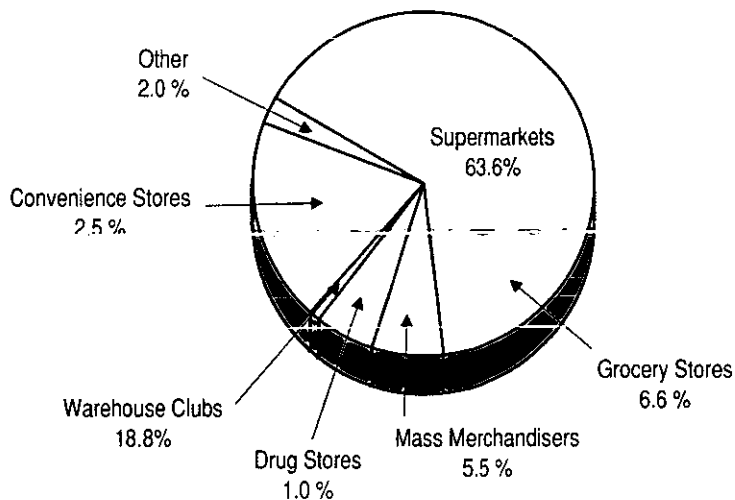


1991 Party Mix Prices

Outlet	Price Per Pound
Supermarkets	\$3.41
Grocery Stores	\$3.00
Mass Merchandisers	\$2.72
Drug Stores	\$3.14
Warehouse Clubs	\$2.16
Convenience Stores	\$3.62

1991 Variety Pack Distribution

(Measured in Pound Volume)



1991 Variety Pack Prices

Outlet	Price Per Pound
Supermarkets	\$4.29
Grocery Stores	\$4.03
Mass Merchandisers	\$3.47
Drug Stores	\$3.55
Warehouse Clubs	\$2.96
Convenience Stores	\$5.00

1990 Party Mix Sales

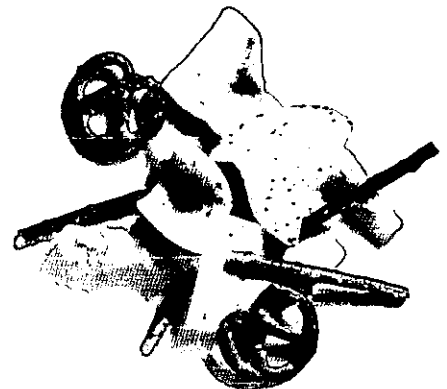
Dollar Sales\$179.1 Million

Pound Volume54.5 Million

1990 Variety Pack Sales

Dollar Sales\$212.0 Million

Pound Volume50.7 Million



MULTIGRAIN CHIPS DRIVE "OTHER SNACKS" AHEAD

The overall savory snack category includes several small product segments that comprise what SFA calls "other snacks." It includes the snacks shown in the chart on this page.

The biggest driving force that produced an overall 79.4 percent gain in dollar sales and a 103.1 percent gain in pound volume for the "other snack" segment was Frito-Lay's new Sunchips brand multigrain chips, which moved from test markets into full-scale national distribution in 1991. This introduction is reflected in the astronomical percent-increase figures shown for this brand-new segment of the snack industry. Since Frito-Lay has already announced that the brand exceeded \$100 million in retail sales in 1991, SFA has listed its projection of multigrain chip sales here in this report.

The multigrain chip segment is clearly growing rapidly, as evidenced by Keebler's early 1992 introduction of Quangles, a guitar-pick shaped multigrain chip. At press time, Borden was reported to be ready for a mid-1992 launch of its own brand of multigrain chip, putting three major snack manufacturers solidly in this new segment.

Another major factor in "other snacks" is Keebler's Pizzarias pizza-flavored chip, which doesn't fall in any established segment. Its presence within the "miscellaneous snack" segment is evidenced by the 187.7 percent increase in dollar sales and 303.6 percent rise in pound volume in the segment. Nabisco's new Mr. Phipps Pretzel Chip product, a pretzel/cracker hybrid, is also included here. This "miscellaneous snack" segment includes a variety of other unclassified products, but Pizzarias and Mr. Phipps Pretzel Chips are strong factors in its growth.

Because these segments are small, the sudden rise of a new product can easily send percent change figures soaring.

Other snacks listed here include filled snacks (which represent M & M Mars Combos and similar products),

onion rings (Frito-Lay's Funyuns brand is the biggest seller), bagel chips, potato sticks, and pellet snacks.

Pellet snacks are a unique variety of extruded snacks that are manufactured in a two-step process. Pellet manufacturers typically make "half-product" from potato-, corn-, wheat-, or rice-based ingredients, producing small "pellets" that resemble uncooked pasta (such as a piece of macaroni). They come in various shapes and sizes, including spirals, wagon wheels, rings, ridged curls, and even hearts, stars, and diamonds. It all depends of the shape of the die through which the ingredients are extruded.

This half-product has a long shelf-life and is usually shipped to snack manufacturers that fry the product for a short time (usually about 20 seconds) to produce a light, airy, puffed snack that is extremely low in fat and light in weight (as demon-

strated by the relationship between dollar sales and pound volume in the chart).

Since pellet snacks have a relatively neutral base flavor, they can be seasoned with a variety of sweet and savory flavors which can be tailored to appeal to either children or adults.

Pellet snacks have caught on in many European countries in a variety of shapes and flavors, and many industry observers expected them to become popular in the United States, especially because of their low fat content. However, pellet snacks have so far failed to catch on at a significant level, and are generally sold by small regional snack manufacturers scattered across the country.

Judging from the dollar sales decline of 27.0 percent and pound volume decrease of 22.2 percent for pellet snacks last year, the segment appears to be waning, despite the unique nature of the product.

1991 "Other Snack" Sales

Multigrain Chip Dollar Sales	\$112.2 Million (+2,060.4 %)
Multigrain Chip Pound Volume	31.4 Million (+2,124.2 %)
Filled Snack Dollar Sales	\$73.0 Million (+25.4 %)
Filled Snack Pound Volume	23.1 Million (+26.8 %)
Onion Ring Dollar Sales	\$45.6 Million (-11.8 %)
Onion Ring Pound Volume	8.8 Million (-15.0 %)
Bagel Chip Dollar Sales	\$48.0 Million (-3.8 %)
Bagel Chip Pound Volume	8.7 Million (-4.1 %)
Potato Stick Dollar Sales	\$34.8 Million (-4.3 %)
Potato Stick Pound Volume	11.0 Million (-2.5 %)
Pellet Snack Dollar Sales	\$3.6 Million (-27.0 %)
Pellet Snack Pound Volume	0.7 Million (-22.2 %)
Miscellaneous Snack Dollar Sales	\$140.0 Million (+187.7 %)
Miscellaneous Snack Pound Volume	40.6 Million (+303.6 %)

Total "Other Snack" Dollar Sales	\$457.2 Million (+79.4 %)
Total "Other Snack" Pound Volume	124.3 Million (+103.1 %)

MIDDLE AMERICA LEADS SNACKERS, TORTILLA CHIPS STRONG IN WEST

Middle Americans wrested the title of being America's leading snackers away from New Englanders in 1991. In 1990, the average New Englander ate more than 24 pounds of snacks, but last year this number fell to 19.77 pounds as Americans in both the East Central and West Central regions consumed an average of more than 22 pounds per person.

Although several factors likely contributed to this trend, New England was especially hard-hit by the recession in 1991, which may be a major reason for the drop.

This shift highlighted a year in which tortilla chips continued their strong showing in the Southwest and Pacific regions (exceeding potato chip sales in the Pacific Region). While

tortilla chip popularity has spread steadily eastward, the product remains most popular in Western states.

Potato chips remained the dominant snack segment in the Eastern United States, reflecting their long history in that region (potato chips were invented in Saratoga Springs, New York) and the proliferation of kettle-style potato chip manufacturers in this part of the country.

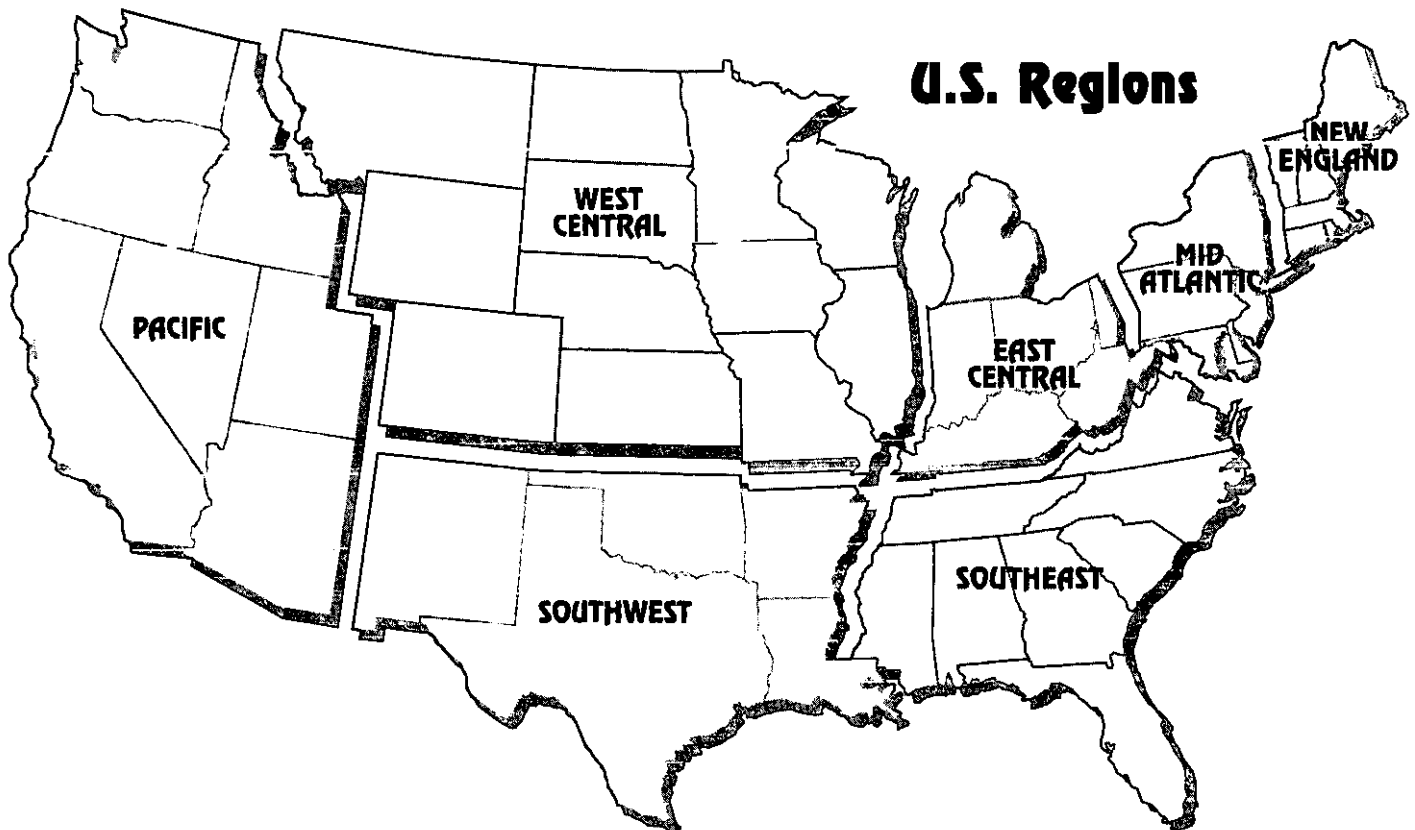
Pretzels were extremely popular in the Mid-Atlantic Region (18.9 percent of the market) and East Central Region (10.4 percent of the market). This was reflected in per-capita consumption of pretzels in these regions, which was well above average.

Pretzel manufacturers are concen-

trated in Pennsylvania, which helps explain the popularity of pretzels in this portion of the country.

Per-capita potato chip consumption was highest in the West Central Region, while per-capita tortilla chip consumption was tops in the Southwest, followed closely by the other regions west of the Mississippi River. Corn chips were also extremely popular among consumers in the Southwest Region.

New England was a stronghold for ready-to-eat popcorn and snack nuts, continuing a long-term trend. Pork rind consumption was unusually low in New England, and also in the Mid-Atlantic Region. Pork rinds were most popular among consumers in the Southeast and Southwest regions.



1991 Per-Capita Snack Consumption by Region

(Measured in Pounds Per Person)

Snacks	Regions							
	Pacific	West Central	Southwest	Southeast	East Central	Mid-Atlantic	New England	U.S. Average
Potato Chips	5.09	7.34	6.01	6.12	8.03	5.45	6.72	6.29
Tortilla Chips	5.29	5.31	5.93	2.94	4.01	2.39	3.03	4.15
Corn Chips	0.84	1.04	1.82	0.86	1.00	0.71	0.70	0.98
Ready-to-Eat Popcorn	0.46	0.69	0.35	0.39	0.55	0.63	0.96	0.54
Microwavable Popcorn	1.23	1.55	1.13	1.44	1.62	1.37	1.83	1.42
Unpopped Popcorn	0.77	1.13	0.70	0.58	0.86	0.45	0.75	0.74
Extruded Snacks	0.81	1.32	1.38	1.26	1.12	0.88	0.95	1.10
Pretzels	0.85	1.54	0.72	1.09	2.31	3.43	1.65	1.66
Snack Nuts	1.58	1.50	1.12	1.75	1.28	1.77	2.05	1.56
Meat Snacks	0.20	0.20	0.09	0.12	0.14	0.11	0.12	0.14
Pork Rinds	0.22	0.13	0.30	0.25	0.13	0.03	0.02	0.16
Party Mix	0.15	0.47	0.23	0.28	0.43	0.28	0.33	0.30
Variety Packs	0.28	0.19	0.28	0.23	0.16	0.17	0.17	0.21
Other Snacks	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Total Pounds Per Person	18.27	22.90	20.55	17.81	22.13	18.17	19.77	19.75

Regional Markets by Snack Segments

Snacks	Regions							
	Pacific	West Central	Southwest	Southeast	East Central	Mid-Atlantic	New England	Total U.S.
Potato Chips	27.9%	32.1%	29.3%	34.4%	36.3%	30.0%	34.0%	31.8%
Tortilla Chips	29.0	23.2	28.8	16.5	18.1	13.1	15.3	21.0
Corn Chips	4.6	4.6	8.8	4.8	4.5	3.9	3.5	5.0
Ready-to-Eat Popcorn	2.5	3.0	1.7	2.2	2.5	3.5	4.8	2.7
Microwavable Popcorn	6.7	6.8	5.5	8.1	7.3	7.5	9.3	7.2
Unpopped Popcorn	4.2	4.9	3.4	3.3	3.9	2.5	3.8	3.8
Extruded Snacks	4.4	5.8	6.7	7.1	5.1	4.8	4.8	5.6
Pretzels	4.7	6.7	3.5	6.1	10.4	18.9	8.4	8.4
Snack Nuts	8.6	6.5	5.5	9.8	5.8	9.7	10.4	7.9
Meat Snacks	1.1	0.9	0.5	0.7	0.6	0.6	0.6	0.7
Pork Rinds	1.2	0.5	1.4	1.4	0.6	0.2	0.1	0.8
Party Mix	0.8	2.1	1.1	1.6	1.9	1.6	1.7	1.5
Variety Packs	1.6	0.8	1.4	1.3	0.7	0.9	0.9	1.1
Other Snacks	2.7	2.2	2.4	2.8	2.2	2.8	2.5	2.5
Pound Sales in Region (Millions)	838.21	899.22	583.86	825.0	751.8	763.1	262.7	4,924.0
% Natl. Snack Sales in Region	17.0%	18.3%	11.9%	16.8%	15.3%	15.5%	5.3%	100.0%
% U.S. Population in Region	18.4%	15.8%	11.4%	18.6%	13.6%	16.9%	5.3%	100.0%

SNACK-RELATED PRODUCTS GROWING

For 1991, SFA has obtained sales data for several segments defined as "snack-related products." These products are outside the traditional category of savory snacks measured each year, yet are clearly important products.

For example, the recent flurry of bite-size crackers in the marketplace has helped push the snack cracker segment ahead, even though SFA estimates retail dollar sales of bite-size crackers to be only about \$200-\$250 million, roughly 10 percent of the snack cracker segment. (This segment includes almost all crackers, with the exception of saltines.)

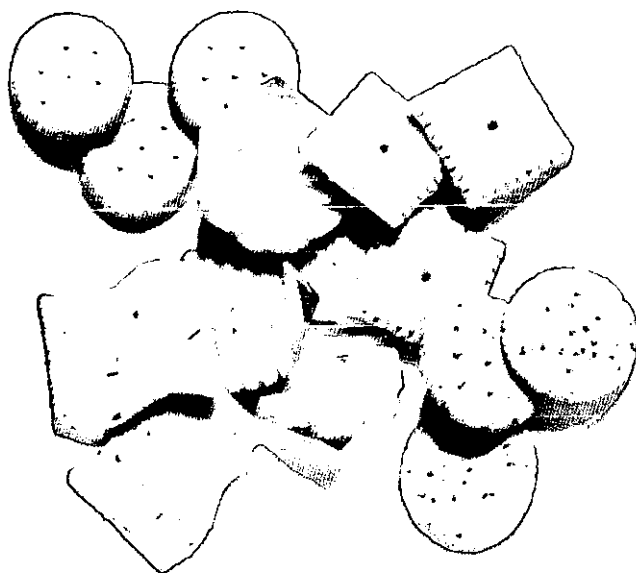
Industry observers agree that bite-size crackers are the fastest-growing segment of the cracker business. Several major snack companies, including Keebler, Frito-Lay, and Nabisco, are actively introducing bite-size crackers, which make it an increasingly important segment to measure. SFA will continue to refine data for this category in future years, breaking out bite-size cracker sales and other cracker products where possible.

The cracker sandwich segment includes cracker sandwiches sold by a variety of snack companies, but has not traditionally been measured by SFA as part of the savory snack industry. However, it is useful to measure sales in this segment to gain a broader understanding of all types of snack sales.

Dips are also important products related to the snack industry. Many snack companies carry their own brands of canned dips, salsa dips, and dip mixes. These products are also sold by non-snack companies.

The canned dip segment includes cheese, bean, and sour cream and onion dips, plus other miscellaneous flavors, including some salsa dips. The Mexican sauce segment includes a variety of salsa dips and similar products, usually sold in jars. The dip mix segment includes small packages of ready-to-mix dips, which consumers blend with sour cream to create the final product.

Aside from bite-size crackers, which



likely grew at an astronomical rate due to new product introductions, Mexican sauces posted the best gain among these snack-related products, rising 19.6 percent in dollar sales and 15.7 percent in pound volume. This is no doubt tied to the strong performance of restaurant-style tortilla chips, since salsa is a natural accompaniment to these products.

The fruit snack segment was another strong performer, posting gains

of about 10 percent in both dollar sales and pound volume. This segment includes apple chips, dried fruit, and the many fruit snacks (such as Fruit Roll-Ups) that are popular with children.

Trail mix is a relatively small segment where sales were down slightly in 1991. Both fruit snacks and trail mix are products not normally carried by companies specializing in savory snacks.

1991 Snack-Related Product Sales

Snack Cracker Dollar Sales	\$2.328 Billion (+6.1 %)
Snack Cracker Pound Volume	848.8 Million (+2.7 %)
Cracker Sandwich Dollar Sales	\$1.235 Billion (+7.2 %)
Cracker Sandwich Pound Volume	319.4 Million (+11.3 %)
Canned Dip Dollar Sales	\$153.2 Million (+6.9 %)
Canned Dip Pound Volume	49.8 Million (+4.3 %)
Mexican Sauce Dollar Sales	\$620.0 Million (+19.6 %)
Mexican Sauce Pound Volume	292.0 Million (+15.7 %)
Dip Mix Dollar Sales	\$38.4 Million (+7.5 %)
Dip Mix Pound Volume	2.6 Million (+4.5 %)
Fruit Snack Dollar Sales	\$555.9 Million (+9.0 %)
Fruit Snack Pound Volume	111.7 Million (+11.2 %)
Trail Mix Dollar Sales	\$33.3 Million (-0.9 %)
Trail Mix Pound Volume	10.9 Million (-2.3 %)

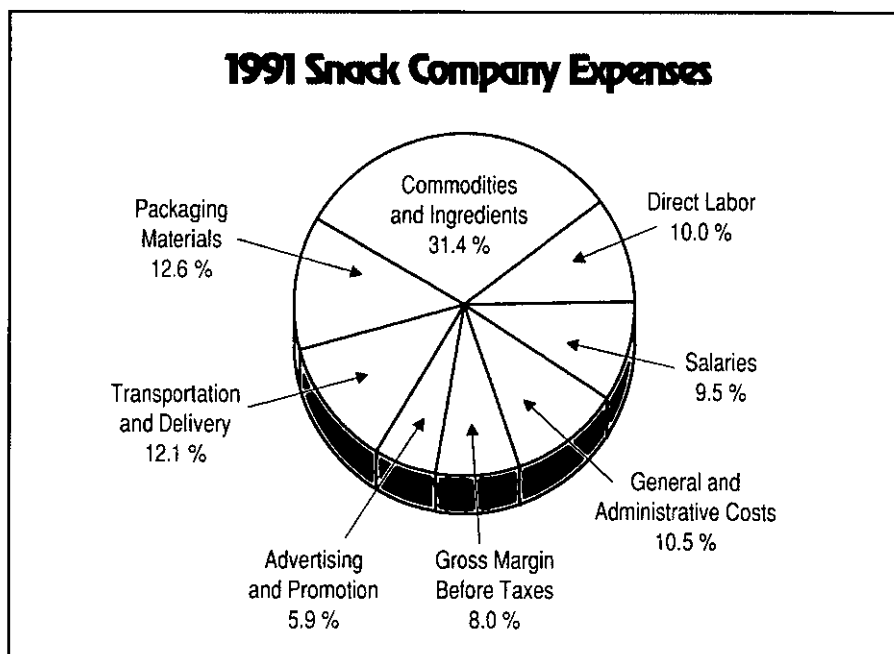
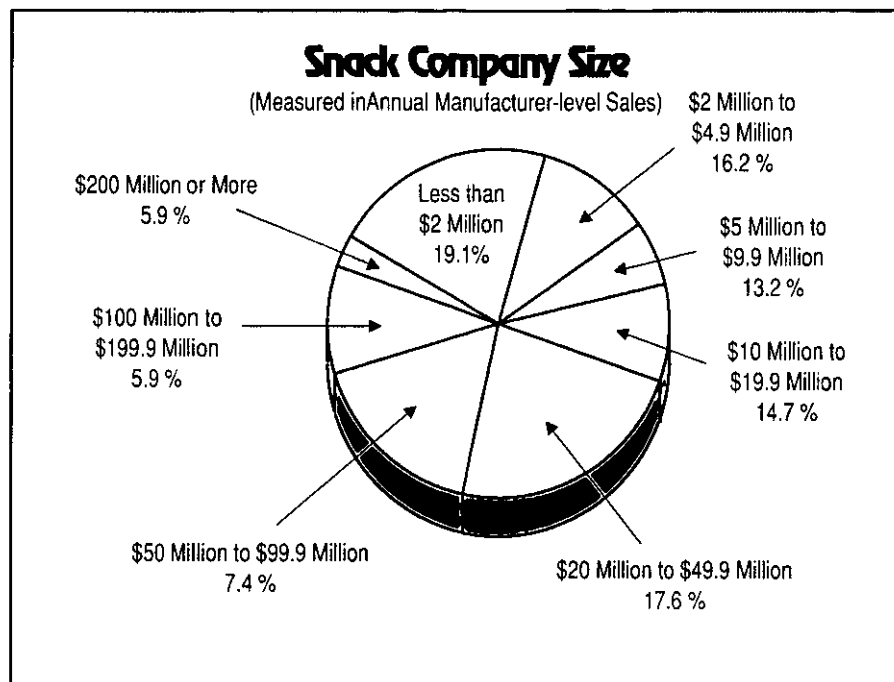
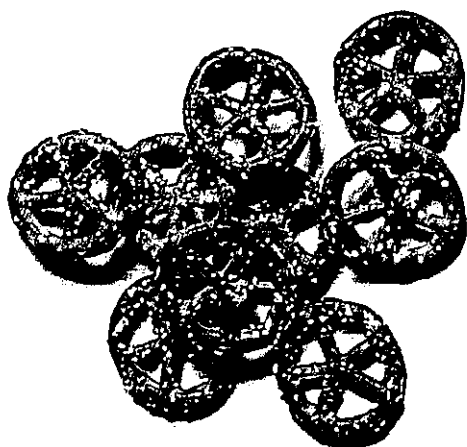
SFA SURVEY SHOWS PROFITS DOWN, PROMOTIONS UP DURING 1991

Each year, SFA's survey of U. S.-based member snack companies yields a wealth of important data about profitability, promotion activities, distribution, costs and operations, and the use of new technology in the snack industry. It also provides an opportunity for members to give open-ended responses to questions about significant challenges and trends facing the snack industry now and in the future (answers to these questions are covered in the "Future Trends" section at the end of this report).

In early 1992, 68 snack companies of 115 polled (59.1%) returned questionnaires concerning their operations during calendar year 1991. Complete anonymity of respondents was retained through Association Research, Inc., Rockville, Maryland, the independent research firm that conducted the survey.

Because of the excellent member response to this year's survey, SFA was able to group together companies with similar characteristics, analyzing these groups separately to provide more useful information. (This additional data is provided in the full survey report, available as part of the complete bound version of the 1992 *SFA State-of-the-Industry Report*. To order this report, refer to the information on page SW-3.)

For example, SFA separated 31 responding companies into a group called "full-line snack companies," defined as companies that manufac-



ture or sell at least five of the following products: potato chips, tortilla chips, corn chips, ready-to-eat popcorn, pretzels, and extruded snacks.

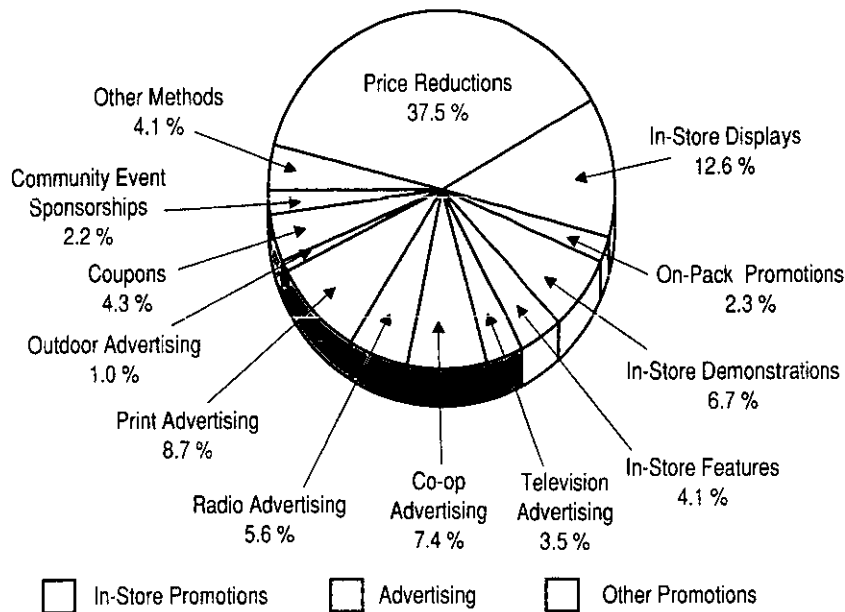
These full-line snack companies were further broken down into three sales volume categories (less than \$10 million; \$10 to \$99.9 million; and \$100 million or more) and two market

area size categories (10 states or less and 11 states or more.)

Several charts in this section of the report show comparisons between full-line snack companies and overall snack company respondents.

As mentioned in the overview of this report, the primary effect of the recession and the price wars in the

1991 Snack Company Advertising and Promotion Expenses



industry was a drop in profitability for snack companies. In 1991, the average gross margin before taxes was 8.0 percent, down from 10.5 percent in 1990. The squeeze was even tighter for full-line snack companies, which posted only an average 6.8 percent gross margin.

Full-line snack companies also spent more on transportation and delivery (15.0 percent) and advertising and promotion (7.8 percent) than the average snack company (see chart on page 45).

Within the advertising and promotion budget, snack companies overall spent 37.5 percent of their money on price reductions. The effect of the price wars on full-line companies in particular was reflected in the fact that these companies spent 45.4 percent on price reductions.

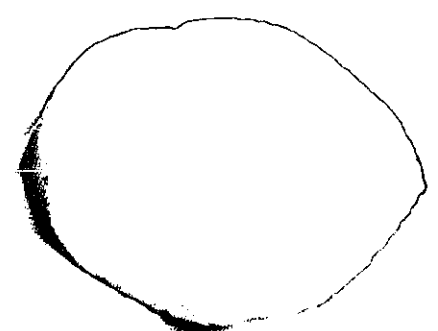
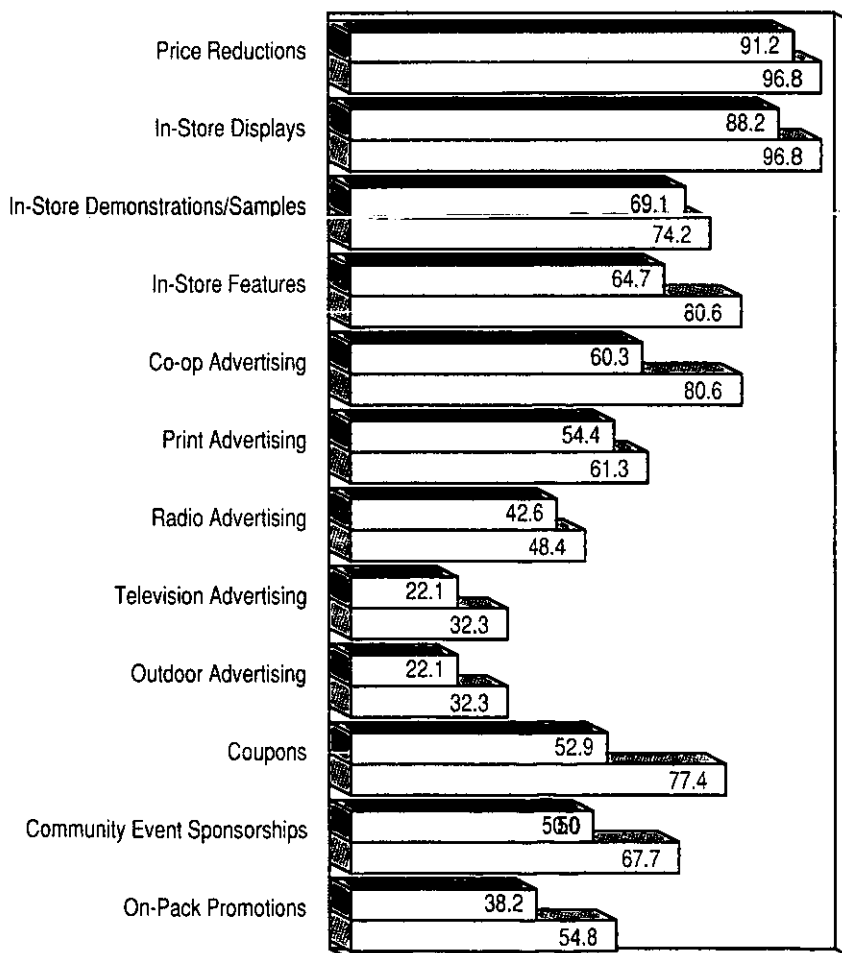
According to the Point of Purchase Advertising Institute's (POPAD) *POP Fact Book* published this year, point-of-purchase (POP) promotion has taken over as the leading marketing tool for grocery manufacturers, accounting for 66 percent of the marketing dollar. This trend is confirmed by SFA's survey, which shows that 63.2 percent of the average advertising/promotion budget is spent on in-store promotions (including price reductions). The figure is not surprising given the competitive nature of the snack industry, and the fact that snacks are largely impulse-purchase items.

Full-line snack companies are heavily behind POP promotions—96.8 percent use both price reductions and in-store displays to promote product. More than 74 percent also use in-store features and in-store demonstrations. Overall snack company respondents showed a similar usage pattern at a lower level.

Among POP promotions, in-store

Advertising and Promotion Activities

All Snack Companies Full-Line Snack Companies



1991 Effectiveness of Advertising and Promotion Activities

Activity	Average Effectiveness Rating*	Very Effective	Effective	Ineffective	Very Ineffective
In-Store Displays	3.72	75.0%	23.3%	.0%	1.7%
Price Reductions	3.37	42.0	53.2	4.8	.0
Television Advertising	3.27	33.3	60.0	6.7	.0
In-Store Features	3.20	29.5	61.4	9.1	.0
Co-op Advertising	3.10	19.5	70.7	9.8	.0
Coupons	3.08	25.0	58.3	16.7	.0
In-Store Demonstrations	3.06	29.8	51.1	14.9	4.2
Print Advertising	3.00	13.5	73.0	13.5	.0
Radio Advertising	2.97	17.2	69.0	6.9	6.9
Outdoor Advertising	2.93	20.0	53.3	26.7	.0
Community Event Sponsorships	2.88	14.7	64.7	14.7	5.9
On-Pack Promotions	2.88	3.9	23.1	53.8	19.2

* 4=Very Effective, 3=Effective, 2=Ineffective, 1=Very Ineffective

displays were deemed most effective—75 percent of respondents to SFA's survey called them "very effective." Forty-two percent said price reductions were "very effective." Interestingly, 53.8 percent said on-pack promotions were "ineffective," and another 19.2 percent called them "very ineffective."

Summer holidays continue to be prime occasions for promoting snacks, with companies running promotions on Memorial Day (60.3 percent), the Fourth of July (66.2 percent), and Labor Day (61.8 percent). Among full-line companies, this percentage is even higher (see chart). The Super Bowl was also a popular promotional occasion.

National Snack Food Month, SFA's annual industry-wide promotional event that debuted in 1989, has taken its place as a major occasion in the snack industry—58.1 percent of full-

line snack companies reported they promoted the event in 1991.

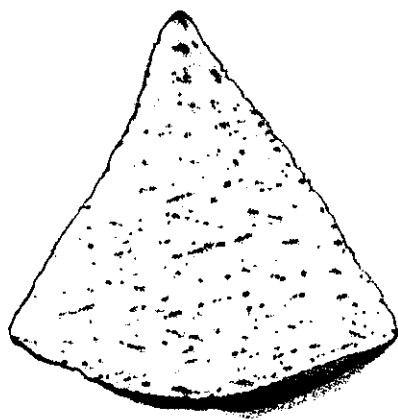
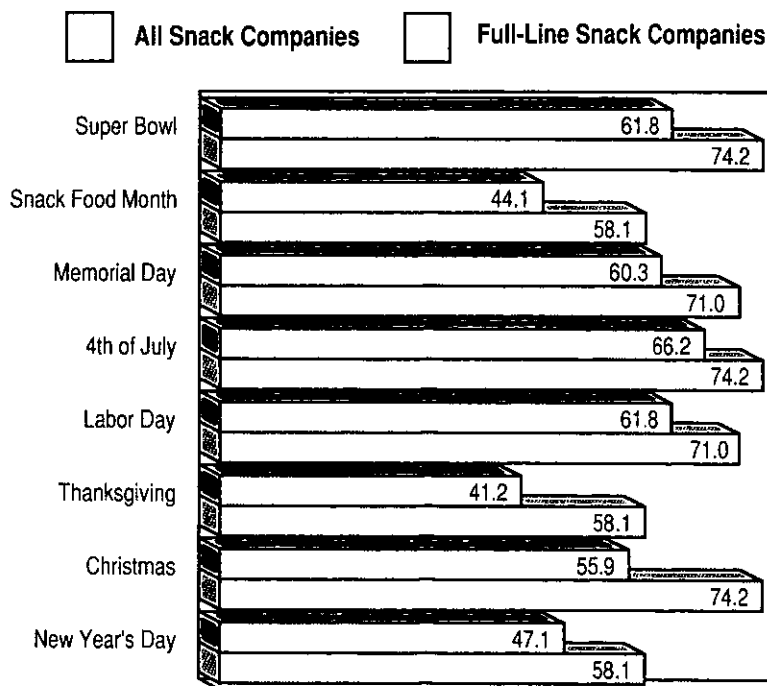
Delivery and distribution of snacks was achieved through a combination of company-owned routes, independent distributors, and warehouse delivery—74.2 percent of companies used a combination of these methods. Snack companies with markets

in 11 or more states relied more heavily on independent distributors, and companies with snack volume of less than \$10 million per year used company-owned routes more often.

When analyzing total snack distribution by method, slightly more than one-third moves through company-owned routes, while independent dis-

Snack Company Holiday Promotions

Percent Promoting During Event

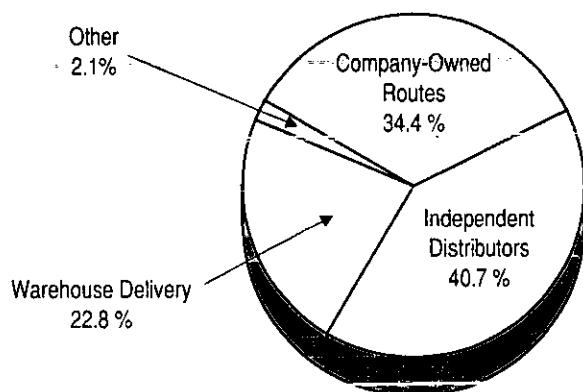


Effectiveness of Holiday Promotions

Holiday	Average Effectiveness Rating*	Very Effective	Effective	Ineffective	Very Ineffective
Memorial Day	3.44	43.9%	56.1%	.0%	.0%
New Year's Day	3.38	40.6	56.3	3.1	.0
4th of July	3.29	33.3	64.4	.0	2.2
Christmas	3.26	31.6	63.2	5.3	.0
Super Bowl	3.24	28.6	66.7	4.8	.0
Labor Day	3.14	21.4	71.4	7.1	.0
Thanksgiving	2.89	14.3	60.7	25.0	.0
Snack Food Month	2.80	6.7	66.7	26.7	.0

* 4=Very Effective, 3=Effective, 2=Ineffective, 1=Very Ineffective

1991 Snack Distribution Methods



tributors deliver about 40 percent (see chart). Less than one-fourth goes through warehouses. For full-line snack companies, 55.3 percent of volume is delivered through company-owned routes, 29.7 is handled by independent distributors, and only 14.7 percent moves through warehouses.

The service-oriented aspect of the snack business dictates that companies make frequent deliveries to their retail customers to distribute fresh product, remove stale packages, and sell product. The SFA survey shows that supermarkets receive the most calls per week (3.3), followed by warehouse club stores (2.9), grocery stores (2.2), mass merchandisers (1.8), convenience stores (1.6), and drug stores (1.5). For full-line snack companies, the frequency of visits is slightly higher (up to 3.9 visits per week to supermarkets).

Saturday is an important delivery

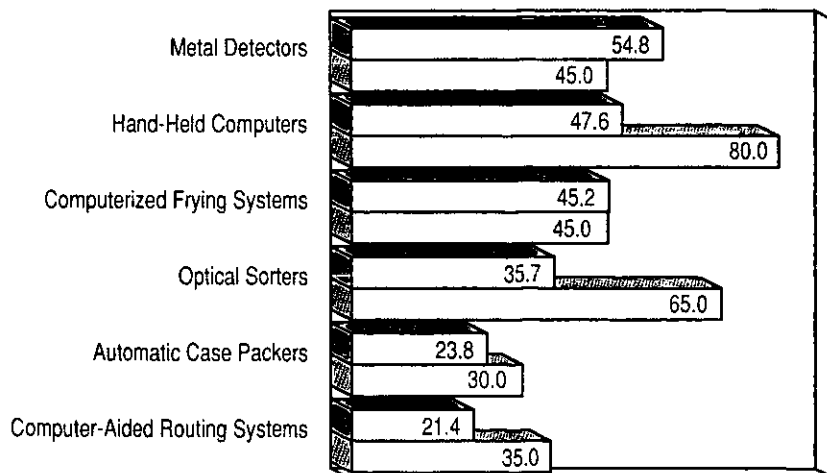
1991 Technology Used

□ All Companies

□ Full-Line Snack Companies

System or Equipment

Percent Using Item

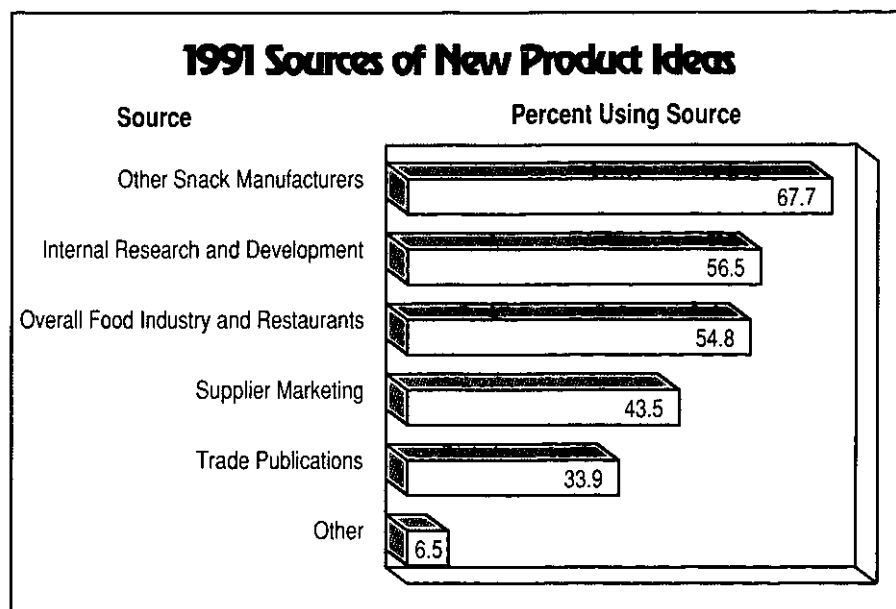


day—80.6 percent of full-line snack companies call on supermarkets that day. On Sunday, the number drops to 41.9 percent.

New technology continued to advance in 1991, and snack companies used it in increasing numbers. The best example is hand-held computers, used by 80 percent of full-line snack companies to streamline their route sales delivery systems.

Optical sorters, which instantly spot and remove off-color potato chips from fast-moving conveyor belts, were employed by 65 percent of full-line snack companies to improve product quality. Metal detectors enjoyed widespread use in the snack industry, and computerized frying systems were in place in nearly half of snack companies last year. Use of automatic casepackers and computer-aided routing systems is lower, but these systems are becoming more popular.

When asked about sources of new product ideas, most snack company executives (67.7 percent) reported they monitored the competition, while more than half said they also



rely on internal research and development and other trends in the food and restaurant industries. Supplier marketing and trade publications were also mentioned by a significant number of respondents.

Snack companies continued to follow current trends in health and nu-

trition concerns of consumers in 1991. For most snacks in the industry, more than 75 percent of snack companies reported using voluntary nutrition labeling to provide information to consumers. Many also used claims of "no cholesterol," "unsalted," "less oil," and "all natural" where appropriate.

1991 Health and Nutrition Claims

Product	Percent of Companies Using Claim					
	Nutrition Labeling	No Cholesterol	No Salt Added/Unsalted	Percent Less Oil	All Natural	Other Claims
Potato Chips	88.6%	82.9%	77.1%	5.7%	54.3%	25.7%
Tortilla Chips	76.9	53.8	46.2	3.8	19.2	19.2
Corn Chips	81.8	45.5	9.1	4.5	13.6	27.3
Ready-to-Eat Popcorn	79.2	45.8	16.7	8.3	20.8	25.0
Microwavable Popcorn	75.0	50.0	25.0	25.0	25.0	—
Pretzels	85.2	59.3	44.4	3.7	11.1	18.5
Extruded Snacks	87.0	43.5	8.7	8.7	4.3	21.7
Pork Rinds	23.8	4.8	—	—	—	—
Meat Snacks	27.3	—	—	—	—	—
Nuts	72.7	27.3	45.5	—	18.2	27.3
Potato Sticks	85.7	42.9	—	—	14.3	14.3
Party Mix	71.4	—	14.3	28.6	14.3	—
Snack Crackers	100.0	66.7	—	—	—	33.3
Cracker Sandwiches	85.7	28.6	—	—	—	—
Fruit Snacks	100.0	100.0	100.0	—	—	—
Trail Mix	100.0	—	—	—	—	—
Pellet-Based Snacks	80.0	60.0	—	—	—	20.0
Bagel Chips	100.0	66.7	—	33.3	—	33.3
Dips	37.5	12.5	12.5	—	12.5	—

COMPETITIVE ISSUES YIELD TO LONG-TERM HEALTH CONCERNS

A majority of snack food company executives believe the greatest challenge facing them in 1992 is the twin scourge of shelf space fees/slotting allowances and fierce competitive pricing practices. However, in the long-term, issues such as nutrition labeling and consumer health concerns dominate the agenda.

Those were among the findings in the 1992 SFA State-of-the-Industry Report survey when executives were asked to name the biggest problems experienced during 1991, the biggest challenges facing them in 1992, and the most significant trends facing the snack industry and their companies during the next five years.

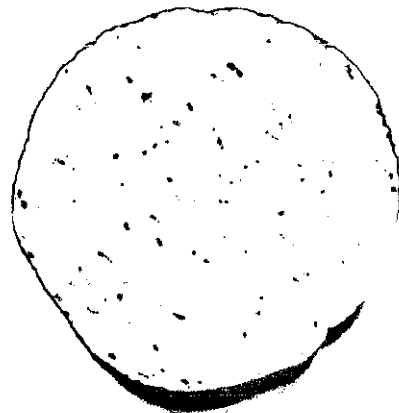
Shelf-space fees and competitive pricing also topped the list of problems in 1991. Comments such as "[tightening a] super-heated price war in the snack aisle," "paying [fees] to maintain space in supermarkets," "declining prices at retail," "increased trade promotion spending," and "an unreasonable cost of doing business being demanded by customers" peppered responses to the survey ques-

tionnaire.

One respondent explains, "The biggest problem facing our company is the slotting fees. Many other aspects of our business are under our control." Another respondent is even more blunt: "The snack food industry must get out of the pay-for-space game." One executive complains it was difficult to "bring new lines up to manufacturing efficiencies during a year of volume swings and competitive pressures on pricing."

Other concerns in 1991 included commodity costs and shortages, the recession, wastewater surcharges, labor costs, government regulations, and high health-insurance costs.

This year, in the face of continuing price competition, "maintaining profit margin" ranked third among current challenges facing the snack industry. This was vividly demonstrated by the 24 percent drop in average company gross margins before taxes reported in this year's survey (gross margins averaged 10.5 percent of sales revenue in 1990 and 8.0 percent in 1991). Full-line snack companies



endured an even sharper 35 percent fall in gross margins (from 10.5 percent to 6.8 percent).

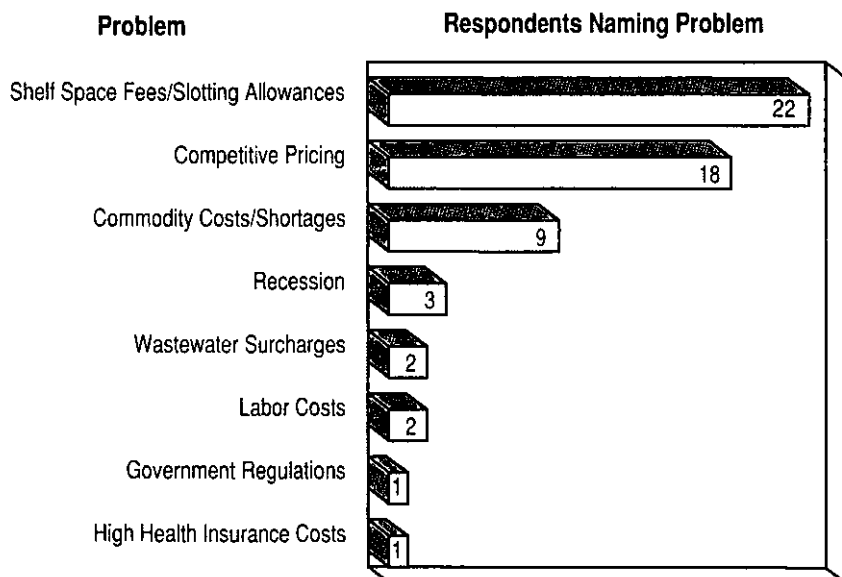
Survey respondents use phrases such as "squeezed margins" and "earnings erosion" to describe the problem, while another explains, "Because sales are growing slowly and price increases are difficult to implement, profits will be affected negatively."

Close behind on the list of 1992 challenges is a collection of comments regarding distribution, management, and expansion. One company is concerned about "being able to keep production up to meet the demand of a new distribution network," while another hopes to "increase operation efficiency to enhance profitability." Another identified the twin challenges of "motivating independent direct-store delivery route drivers and gaining new distribution at key grocery chain outlets."

The recession also remains a concern in 1992, as do commodity costs, the challenge of increasing sales, upcoming labeling laws, new product development, higher taxes, mergers, modernizing production, and higher health insurance costs.

Shelf space fees/slotting allowances ranked only third on the list when manufacturers were asked for the most significant trend that will affect the snack industry and their companies during the next five years. The number-one response was a combination of nutrition labeling laws and

Biggest Problems Faced By Snack Companies During 1991



government regulations, followed closely by health concerns among consumers. Environmental concerns and competitive pricing/competition rounded out the top five.

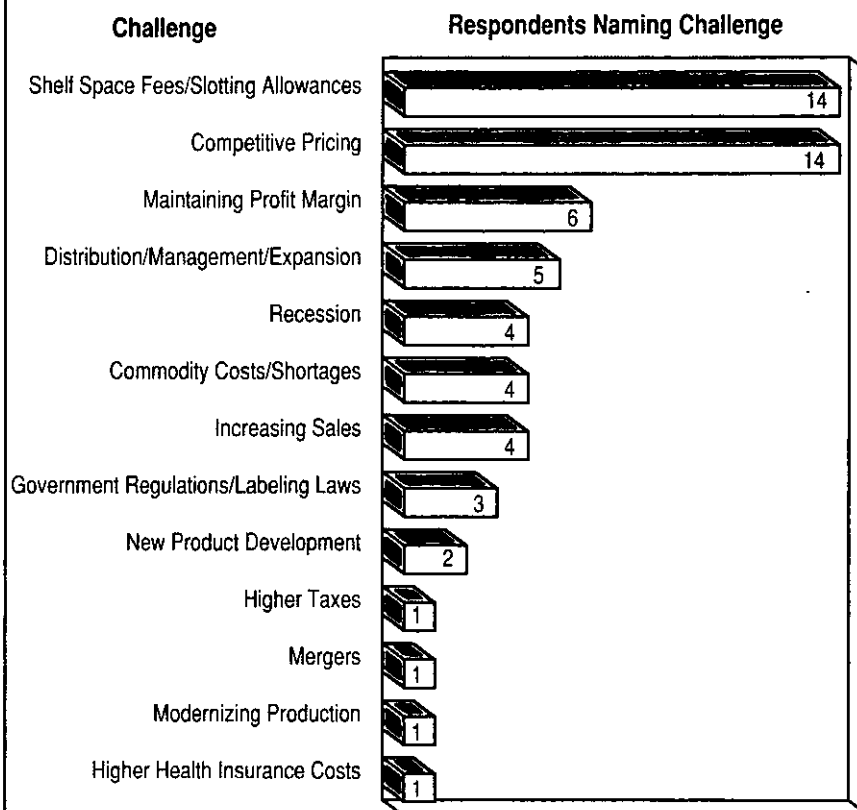
Other concerns included demographic changes, changing consumer preferences, consolidation of the industry, the recession, growth of club stores and other retail outlets, and commodity costs.

As the snack industry prepares for final new labeling regulations due out this fall, it's not surprising that nutrition labeling laws/government regulations top the list of long-term challenges.

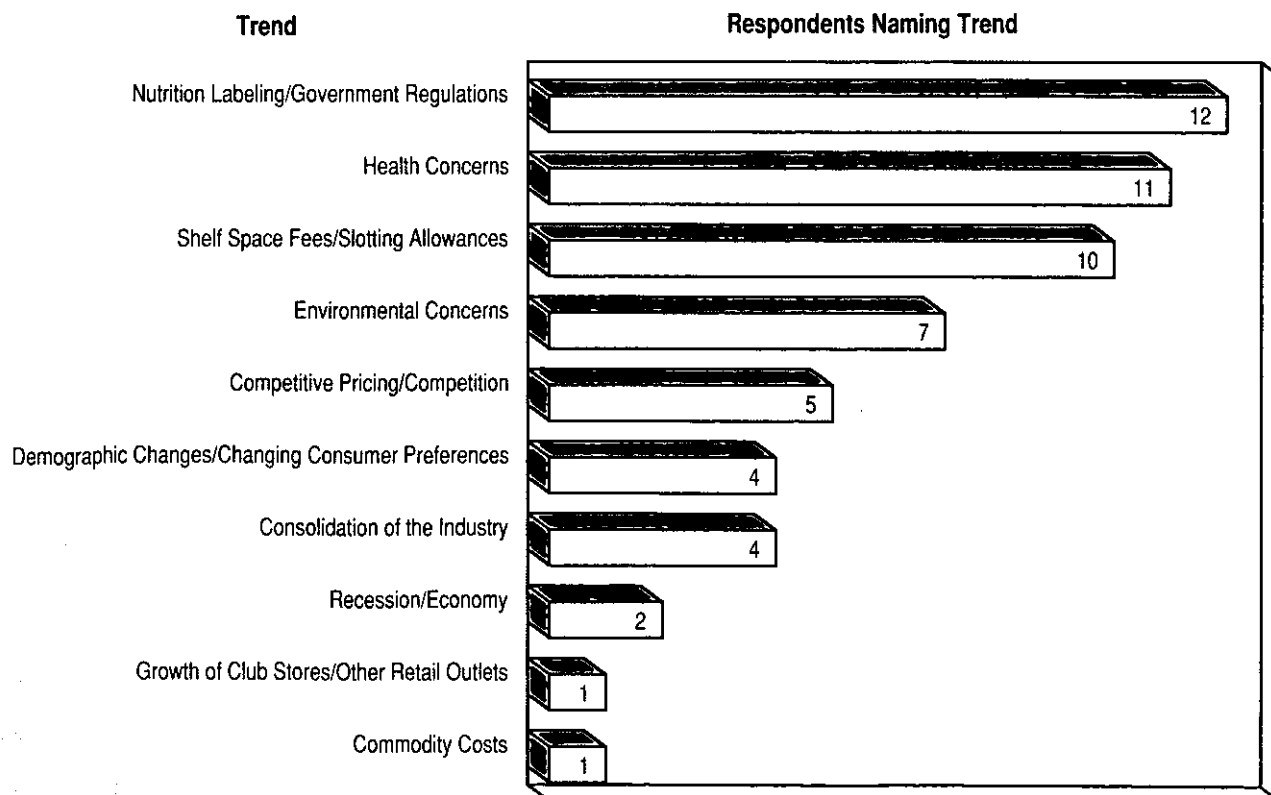
On health concerns, one respondent articulates the challenge as "development of next-generation products that meet both taste and nutritional demands of today's educated and concerned consumers."

Ever conscious of consumer demands, the snack industry is already meeting this latest challenge by introducing such products as multigrain chips, bite-size crackers, low-oil and low-salt versions of traditional snacks, and other variations. Now it's up to consumers to "vote" for these products at the checkout line.

Biggest Challenges Snack Companies Will Face During 1992



Most Significant Trends Facing Snack Industry During Next Five Years



WE GUARANTEE WE CAN END UPC SCANNING PROBLEMS ON YOUR PACKAGING. THAT'S RIGHT. WE GUARANTEE IT.

A UPC symbol on your package that doesn't scan properly at the checkout counter starts a chain reaction nobody wants. It creates a loss in productivity that not only costs the retailer time and money, but also might cost you a fine, and maybe even future business.

As you would expect from a leader in packaging technology, Printpack has invested heavily in research and testing of our methods of preparing and printing UPC symbols.

We tested over 4,500 symbols printed in our plants on a wide variety of materials, checking them on both the Marcon® 3000 and Laserchek II testing devices.

We concluded that our long-established quality assurance systems and printing expertise enable us to stand squarely behind a promise of first-time scannability on UPC symbols we produce. What's more, we can also promise they will be identical to the human readable code.

If we fall short, we either replace the packaging material involved at no cost or pay any reasonable retailer-imposed fine. All we ask is that the UPC code on your package meets UCC specifications and our normal criteria for production materials.

The Printpack UPC Scannability Guarantee. It's just one more in the long list of helpful things we're doing in flexible packaging.

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*Don't use red.
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This is the recommended way to put a UPC symbol on a flexible package. Do it this way, and we guarantee first-time scannability. (UPC symbol not shown actual size.)